1988 Nielsen Review of Retail Drug Store Trends

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Introduction

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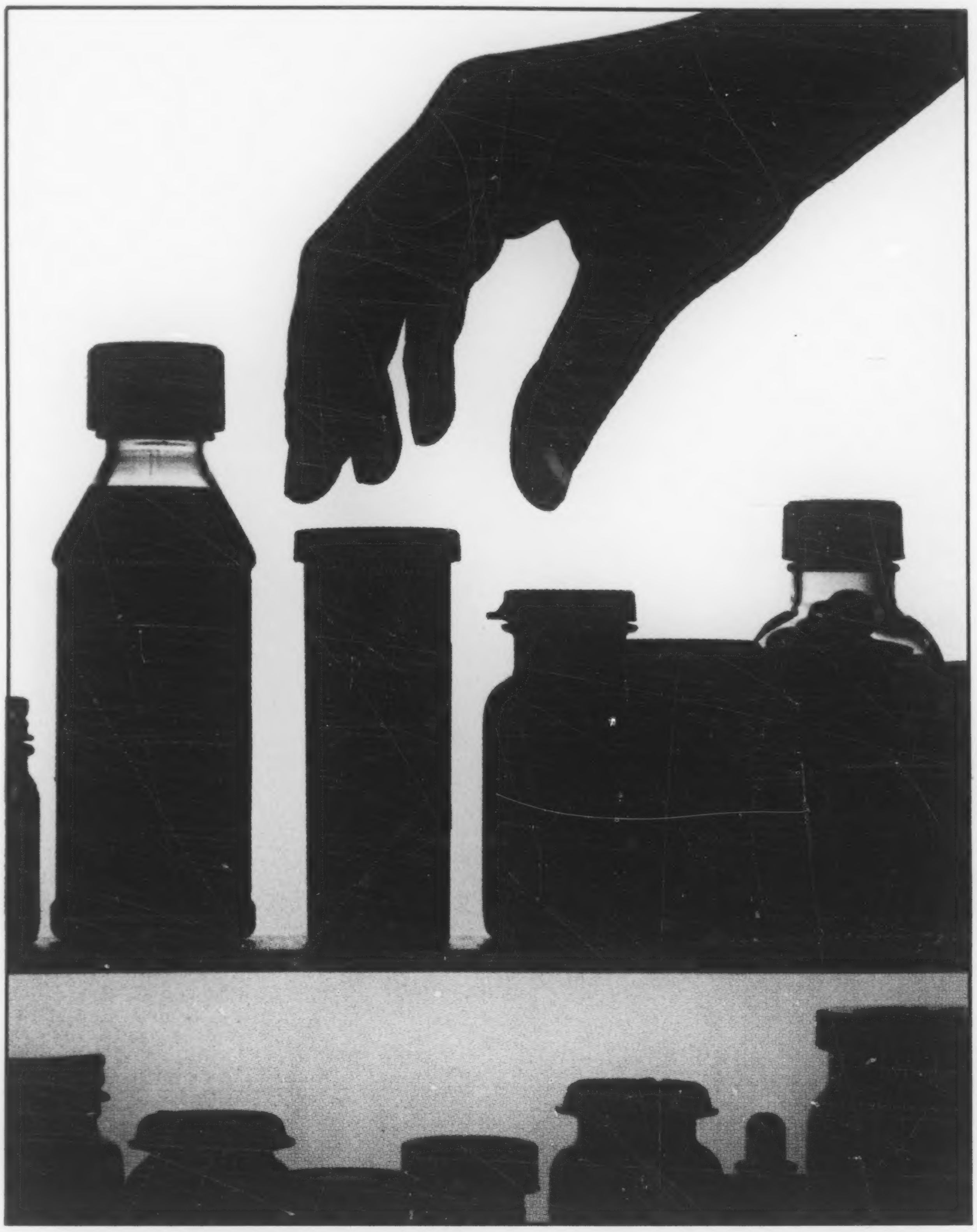
1988 is proving to be a banner year for drug stores. So far this year, retail drug store sales increased 8%, well ahead of 1987.

Total retail sales were up 5% in 1987 and they're up 7% for the first half of 1988.

The information compiled by Nielsen Marketing Research and presented in this publication shows that:

- Consumers still have money to spend and that is one of the major reasons that the U.S. economy continues to perform well.
- Economic growth during the remainder of 1988 and the first half of 1989 will be moderate.
- Chain drug outlets now account for 62.1% of all U.S. retail drug store sales.
- Drug store sales of toiletry and remedial items are increasing at a rate that is twice their growth in food stores.
- 86% of all chain drug outlets now have computerized pharmacy operations.
- Alcoholic beverages are now sold in 64% of all chain drug stores.
- Chain drug store executives are predicting that the use of cable TV and other electronic media as advertising mediums will be greatly expanded during the next five years.
- More than 8 out of 10 key chain drug executives feel that within the next five years, the utilization of UPC scanner checkout systems in their stores, will equal the utilization within food chains.



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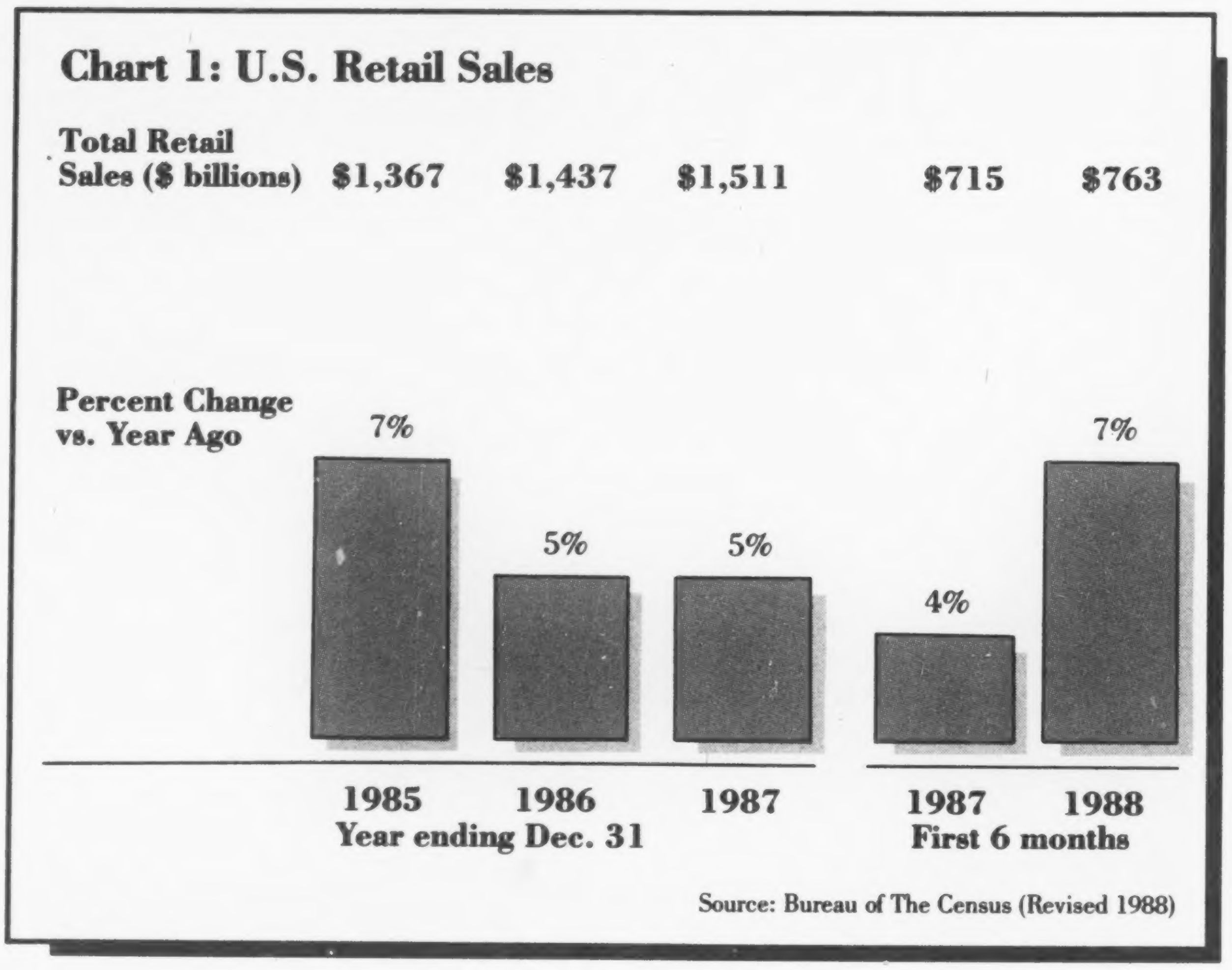
CHAPTER I:
The Economic Environment

The U.S. economy is expanding at a pace that exceeds the projections of analysts in the aftermath of the 1987 October financial crisis. Whatever influence the stock market crash had on real economic activity is behind us. The dark clouds on the horizon continue to be the federal budget and trade deficits.

The economy's strength over the past several months has been attributed to robust consumer and business spending accompanied by healthy export growth. Total U.S. retail sales increased 5% in 1987 to $1.5 trillion. During the first half of 1988, sales are running 7% greater than last year and are expected to continue at that rate for the remainder of this year.

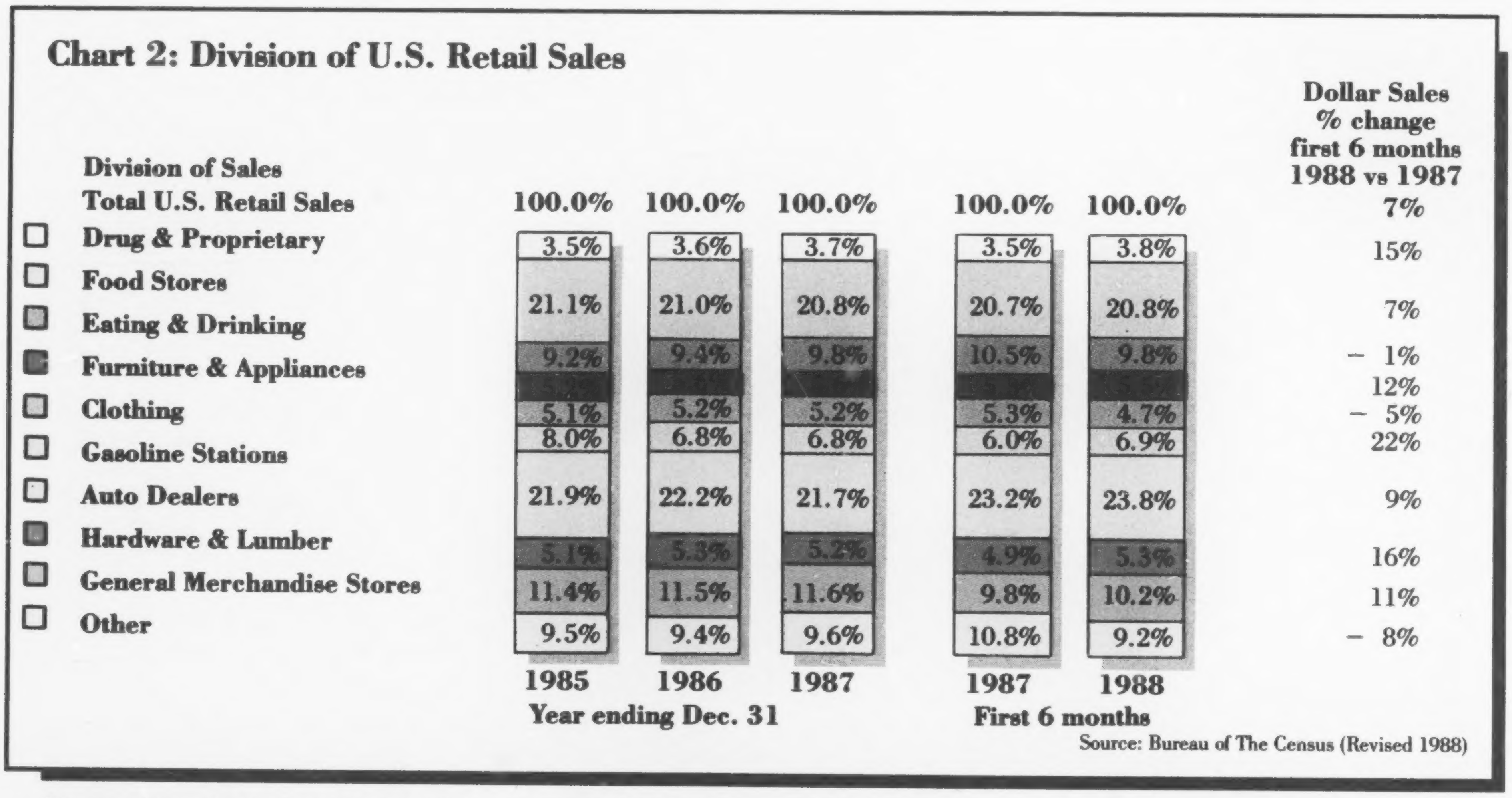
Economic growth during the remainder of 1988 and the first half of 1989 should be moderate.

Chart 1: U.S. Retail Sales



Source: Bureau of The Census (Revised 1988)

Chart 2: Division of U.S. Retail Sales



Source: Bureau of The Census (Revised 1988)

Drug stores' share of total U.S. retail sales inched up .1 point to 3.7% last year; for the first six months of 1988, drug stores grabbed a 3.8% share of all retail sales.

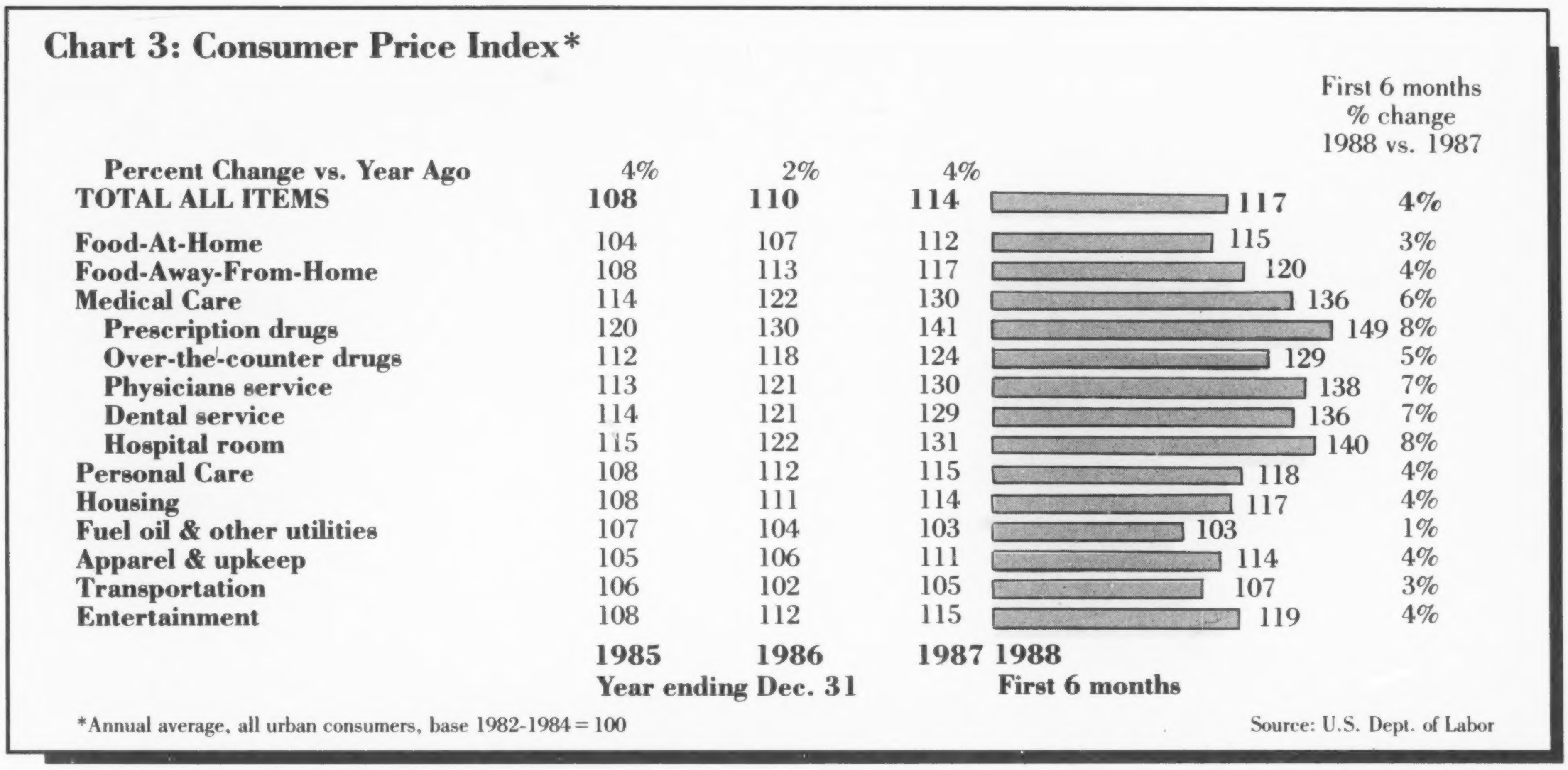
Gasoline station sales have climbed 22% above a slow year ago as station owners added services and supported premium gas grades.

Hardware and lumber establishment sales rose 16%, now accounting for 5.3% of sales.

Furniture and appliances as well as general merchandise store sales steamed along at a 12% and 11% rates respectively, another indication of continuing consumer confidence in the economy.

Clothing sales and eating and drinking establishment sales slipped from strong year ago levels by –5% and –1% respectively.

Chart 3: Consumer Price Index*



	1985	1986	1987	1988 First 6 months	First 6 months % change 1988 vs. 1987
Percent Change vs. Year Ago	4%	2%	4%		
TOTAL ALL ITEMS	**108**	**110**	**114**	**117**	4%
Food-At-Home	104	107	112	115	3%
Food-Away-From-Home	108	113	117	120	4%
Medical Care	114	122	130	136	6%
Prescription drugs	120	130	141	149	8%
Over-the-counter drugs	112	118	124	129	5%
Physicians service	113	121	130	138	7%
Dental service	114	121	129	136	7%
Hospital room	115	122	131	140	8%
Personal Care	108	112	115	118	4%
Housing	108	111	114	117	4%
Fuel oil & other utilities	107	104	103	103	1%
Apparel & upkeep	105	106	111	114	4%
Transportation	106	102	105	107	3%
Entertainment	108	112	115	119	4%

1985 1986 Year ending Dec. 31 1987 1988 First 6 months

*Annual average, all urban consumers, base 1982-1984 = 100

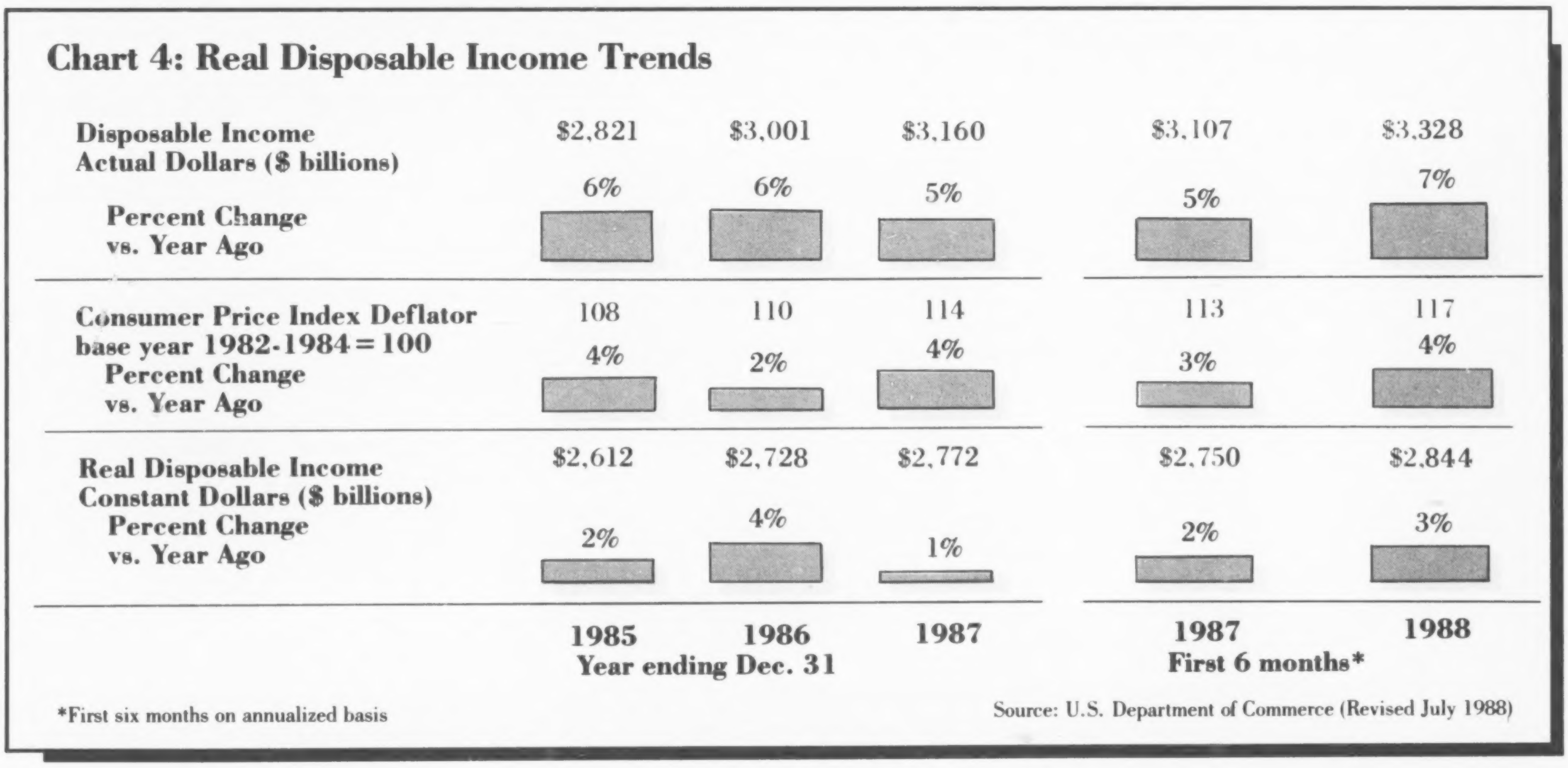
Source: U.S. Dept. of Labor

Price inflation remains surprisingly low given continuing strong consumer and business spending. The 4% rate of inflation during 1987, which continued through the first part of 1988, is only marginally greater than 1986. Price inflation is expected to hold at the 4% level for the rest of 1988.

The highest increases are within the medical care area. Year-to-date 1988 increases are averaging 6%. Over-the-counter drug price inflation has remained on the low side (+5%), while prescription drug prices are higher (+8%) as are most medical service costs.

Personal care costs which includes toiletry products and personal care services, are increasing at a 4% rate.

Chart 4: Real Disposable Income Trends



	1985	1986	1987	1987 First 6 months*	1988 First 6 months*
Disposable Income Actual Dollars ($ billions)	$2,821	$3,001	$3,160	$3,107	$3,328
Percent Change vs. Year Ago	6%	6%	5%	5%	7%
Consumer Price Index Deflator base year 1982-1984 = 100	108	110	114	113	117
Percent Change vs. Year Ago	4%	2%	4%	3%	4%
Real Disposable Income Constant Dollars ($ billions)	$2,612	$2,728	$2,772	$2,750	$2,844
Percent Change vs. Year Ago	2%	4%	1%	2%	3%

1985 1986 Year ending Dec. 31 1987 1987 1988 First 6 months*

*First six months on annualized basis

Source: U.S. Department of Commerce (Revised July 1988)

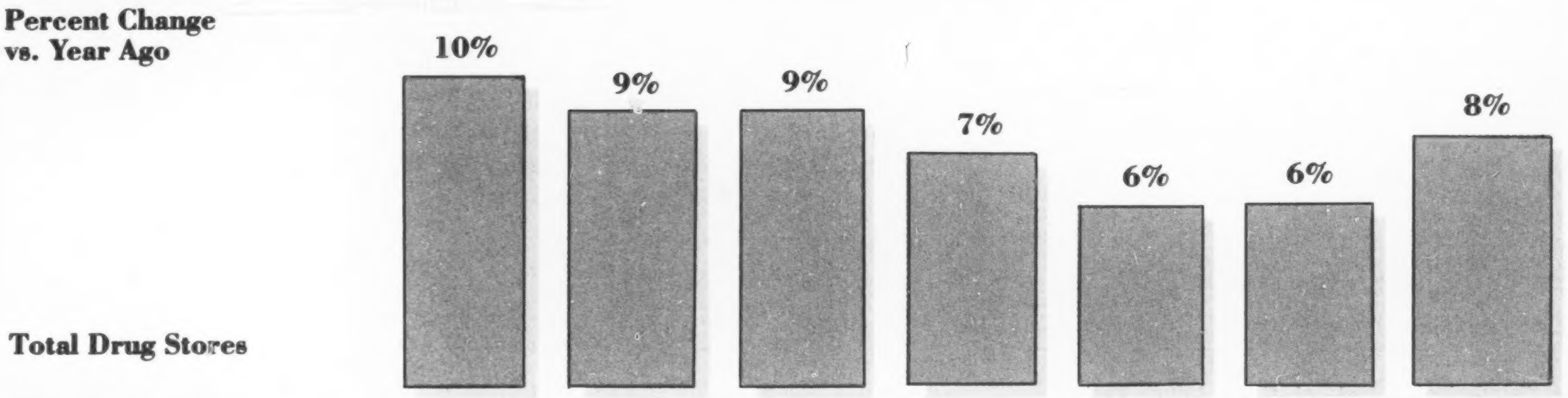
Consumers have more money to spend. Real income gains are coming in at a rate of 3% in the first part of this year. Consumers are using their disposable income, as well as savings and credit for purchasing big ticket items from furniture, appliance and general merchandise stores.

During 1989, consumer spending will begin to slow as consumers have to pay off high debt levels and plan for higher tax rates.

Chapter II:

Retail Drug Store Sales

Chart 5A: U.S. Retail Drug Store Sales—Chains vs. Independents



	1983	1984	1985	1986	1987	1987	1988
All Independents	7%	5%	6%	7%	3%	4%	4%
All Chains	11%	12%	11%	7%	8%	8%	10%
Dollar Sales ($ billions)							
Total Drug Stores	**$39.7**	**$43.2**	**$47.0**	**$50.3**	**$53.4**	**$26.3**	**$28.3**
All Independents	$16.9	$17.7	$18.8	$20.1	$20.7	$10.3	$10.7
All Chains	$22.8	$25.5	$28.2	$30.2	$32.7	$16.0	$17.6

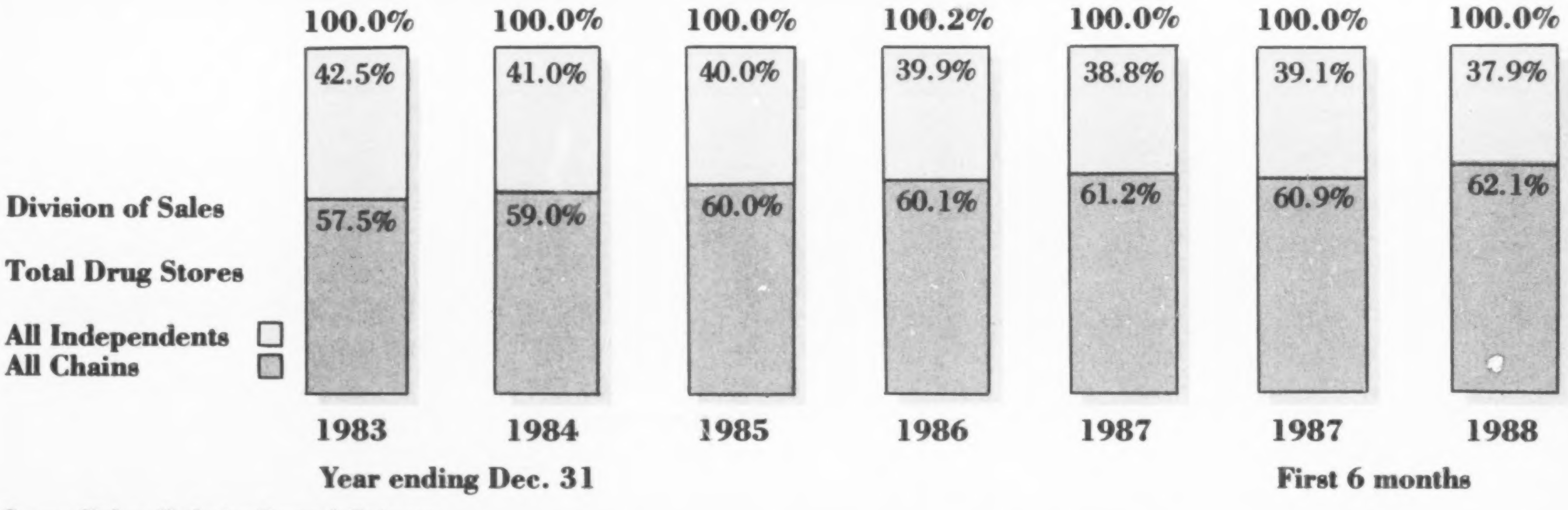
Year ending Dec. 31 (1983–1987) · **First 6 months** (1987, 1988)

Source: Nielsen Marketing Research Estimates

$53.4 billion in sales!—that's what consumers spent in drug stores during 1987. So far this year, consumers have increased their spending rate by 8%, so 1988 should be a banner year for drug store owners.

Sales strength is coming from all departments with both the pharmacy and front-of-store operations contributing to the gains. Front-of-store gains have been spurred by both over-the-counter remedial and personal care items as well as non-traditional merchandise product lines.

Chart 5B: U.S. Retail Drug Store Sales Share—Chains vs. Independents



Source: Nielsen Marketing Research Estimates

Chain drug stores now account for 62.1% of sales, up 1.2 points over last year. Nielsen defines chains as 4 or more stores under common ownership.

Chart 6: Drug Stores: Retail Drug Store Sales -By Nielsen Retail Marketing Area

	1987 Drug Store Dollar Sales ($ millions)*	% change vs. year ago	1987 Share of U.S. Sales	1987 Number of Households (millions)	Index Drug Store Sales Per Household US = 100	1987 Effective Buying Income ($ billions)	Index Buying Income per household US = 100
TOTAL UNITED STATES	**$53,733**	**6%**	**100.0%**	**89.1**	**$600**	**$2,960**	**$33,675**
New England	$2,953	10%	5.5%	4.7	105	$ 179	115
Metro New York	$2,808	10%	5.3%	5.9	79	$ 236	121
Albany/Buffalo/Syracuse	$1,626	3%	3.0%	2.6	104	$ 90	103
Philadelphia	$2,276	8%	4.3%	3.8	100	$ 132	107
Baltimore/Washington	$1,932	3%	3.6%	3.0	107	$ 116	118
Pittsburgh	$1,287	10%	2.4%	2.4	89	$ 68	85
Cleveland	$1,460	5%	2.7%	2.5	99	$ 78	93
Detroit/Grand Rapids	$2,280	5%	4.3%	3.5	107	$ 118	100
Indianapolis/Cincinnati/ Lexington	$2,564	10%	4.7%	4.0	107	$ 122	91
Metro Chicago	$2,123	4%	4.0%	2.9	123	$ 110	116
St. Louis/Peoria	$1,139	4%	2.1%	2.2	86	$ 70	96
Kansas City/Omaha/Iowa	$1,710	5%	3.2%	3.7	76	$ 116	93
Minneapolis/Wisconsin	$1,906	4%	3.5%	3.9	80	$ 127	98
Denver/Mountains	$1,049	6%	2.0%	2.1	84	$ 65	96
Virginia/Carolinas	$2,618	5%	4.9%	4.6	94	$ 135	88
Florida/South Georgia	$3,298	9%	6.2%	5.1	108	$ 153	91
Georgia/Alabama	$2,915	7%	5.4%	5.2	93	$ 148	85
Delta	$2,330	6%	4.4%	4.1	95	$ 108	82
Albuquerque/San Antonio/ Oklahoma	$1,463	4%	2.8%	3.7	65	$ 106	86
Dallas/Houston	$2,143	1%	4.0%	4.0	88	$ 139	104
Southern California	$4,454	11%	8.3%	6.2	118	$ 237	114
Boise/Salt Lake/Phoenix	$1,349	11%	2.5%	2.0	109	$ 61	91
Northern California	$4,009	4%	7.5%	4.2	160	$ 157	113
Seattle/Portland	$1,791	3%	3.3%	2.9	103	$ 89	94

*year ending Dec. 31

Source: Nielsen Market Research estimates. Market Statistics estimates

Total U.S. drug store sales increased an average of 6% across the U.S. in 1987.

Much of that strength can be found at opposite ends of the country: on the east coast (New England at +10% and Metro New York at +10%) and in the west, Southern California at +11%, and Boise/Salt Lake/Phoenix at +11%).

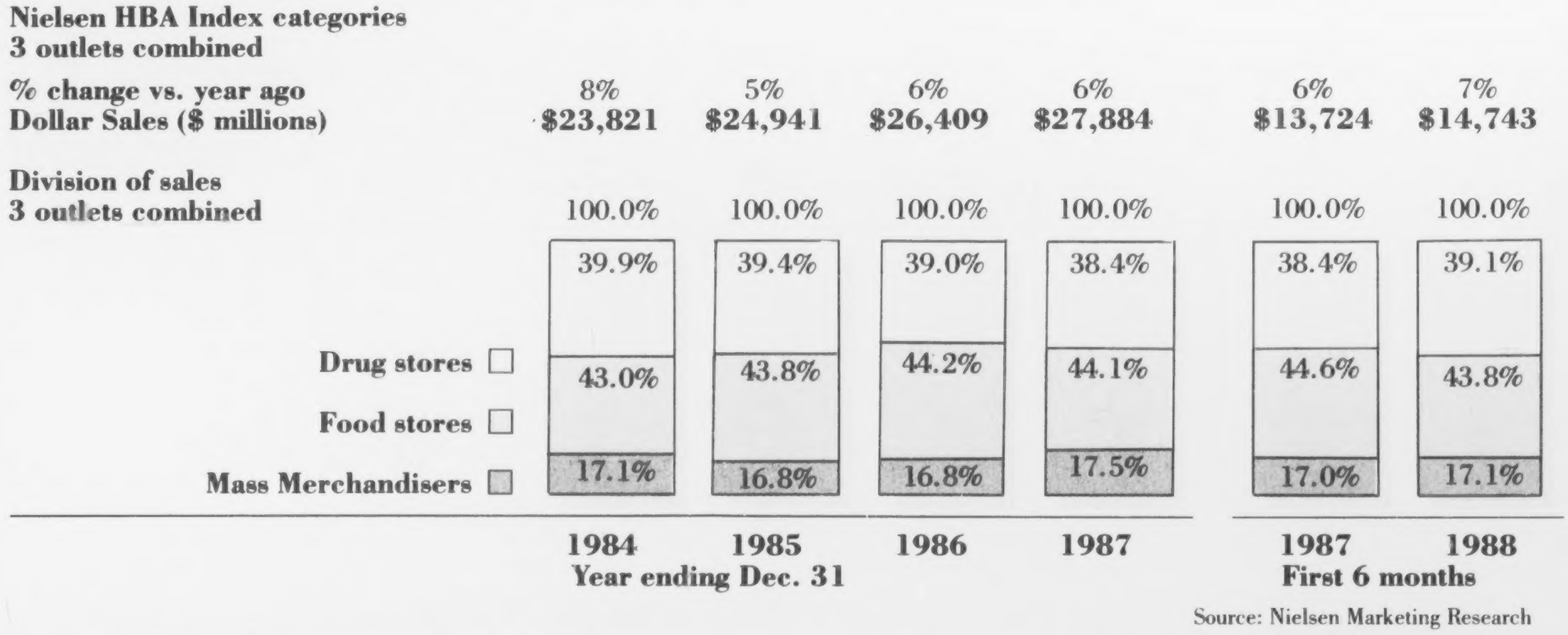
There are no areas reporting sales decreases although sales in Dallas/Houston (+1%) are slow.

Total drug store sales per capita is highest again this year in Northern California (160), Chicago (123) and Southern California (118). These are areas where drug stores have been particularly successful in presenting to consumers a wide variety of non-traditional merchandise and services.

Chapter III:

HBA Sales Trends

Chart 7: HBA Division of Sales—Drug Vs. Food Vs. Mass Merchandisers



Source: Nielsen Marketing Research

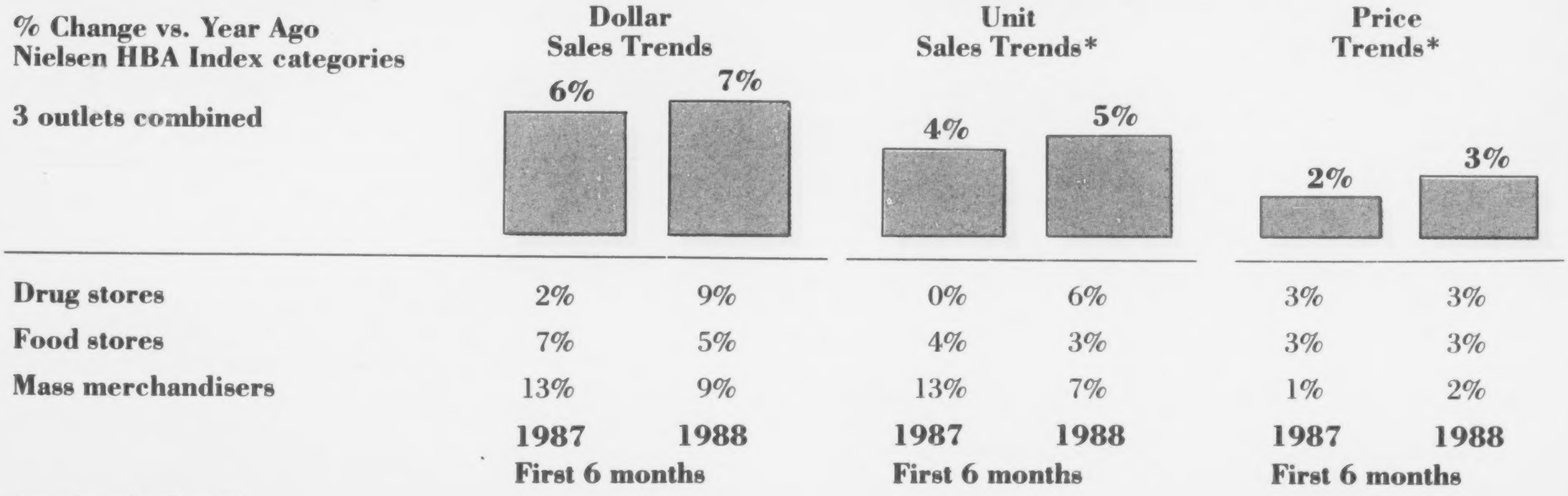
Drug Store HBA Index dollar sales, up 9% so far this year, are outpacing both food store and mass merchandiser HBA Index sales. Drug stores have captured 39.1% of HBA sales, up by .7 point from last year, the first increase in years. This gain has been at the expense of food stores.

Total three outlet dollar sales reported by the Nielsen HBA Index are, for the second straight year, increasing at a strong 7% rate.

The categories that comprise the index generated $27.9 billion in sales. For the first six months of 1988, the categories in the HBA Index generated $14.7 billion in sales.

The Nielsen HBA Index is currently composed of 66 selected over-the-counter toiletry, cosmetic, remedial and paper goods categories. No prescription items are included.

Chart 8: HBA Sales and Price Trends—Drug Vs. Food Vs. Mass Merchandisers



6 months ending June 30
*Weighted by dollar importance of each category

Source: Nielsen Marketing Research

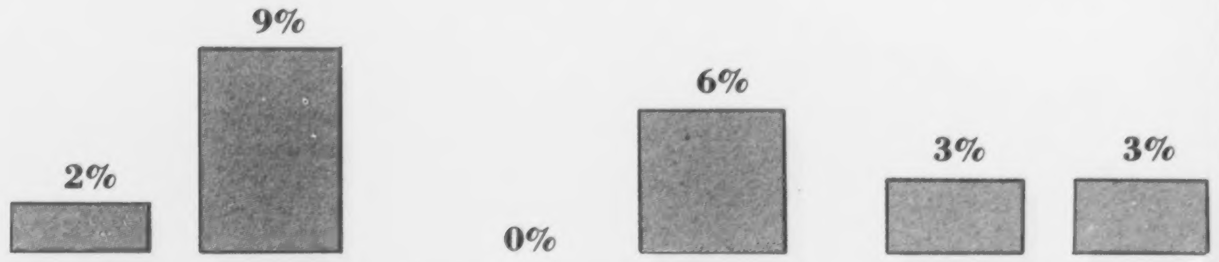
Real drug store growth (unit sales), as reflected in the Nielsen HBA Index categories, jumped 6% over last year and is double the growth rate in food stores.

Price inflation remains stable at about 3% in all three outlets.

Mass merchandiser strength comes from strong sales growth of oral hygiene categories, cold/cough/flu products and batteries.

The total dollar volume of the 66 categories in the Nielsen HBA Index represents 20.0% ($10.7 billion) of all drug store sales and 4.1% ($12.3 billion) of total food store volume.

Chart 9: HBA Sales and Price Trends—Drug Stores



% Change vs. Year Ago	Dollar Sales Trends		Unit Sales Trends*		Price Trends*	
Total Nielsen HBA Index Categories	2%	9%	0%	6%	3%	3%
Total Toiletries	3%	9%	0%	6%	3%	3%
Men's products	6%	7%	2%	1%	4%	6%
Skin care	7%	15%	3%	11%	3%	4%
Hair care	– 2%	9%	–4%	6%	2%	3%
Oral hygiene	5%	13%	–1%	10%	6%	3%
Color cosmetics	3%	11%	1%	8%	3%	3%
Other toiletries	3%	2%	0%	– 1%	3%	3%
Total remedial	2%	10%	–1%	7%	4%	3%
Cold/cough/flu/sinus remedies	2%	7%	–2%	5%	4%	2%
Analgesics/digestive remedies	0%	11%	–3%	7%	4%	4%
External medicines	10%	15%	8%	13%	2%	2%
Paper goods	0%	8%	–2%	6%	2%	2%
Selected sundries	6%	8%	6%	4%	0%	4%
	1987	**1988**	**1987**	**1988**	**1987**	**1988**
	First 6 months		**First 6 months**		**First 6 months**	

6 months ending June 30
*Weighted by dollar sales importance

Source: Nielsen Marketing Research

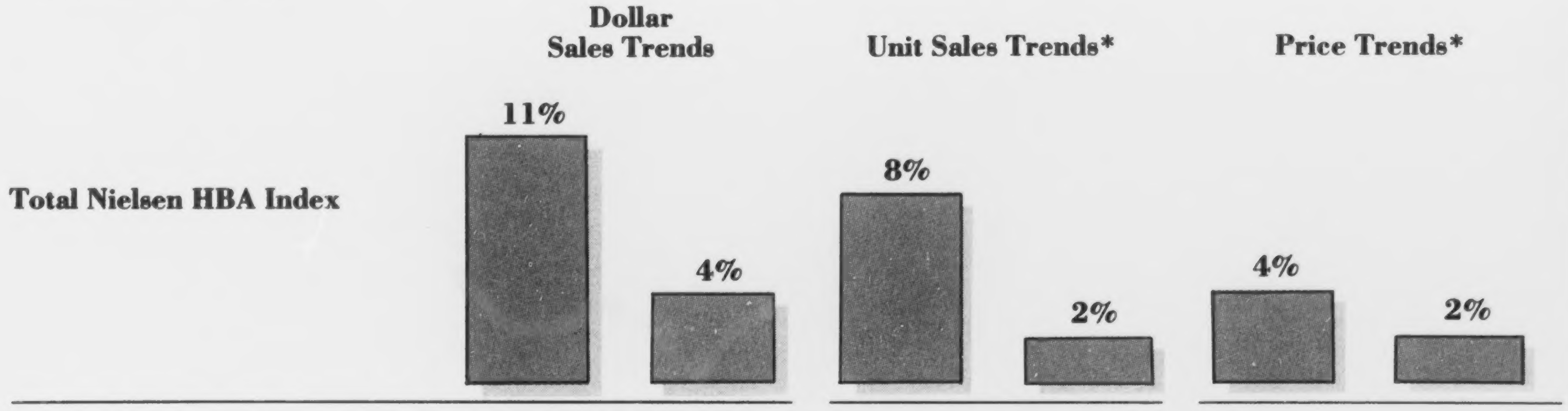
HBA dollar sales in drug stores increased an impressive 9% in the first 6 months of 1988, even real growth, at 6% so far this year, has been excellent.

On a dollar basis, very strong product groups include skin care and external medicines, both averaging 15% increases this year. Several categories within the oral hygiene (+13%) and the analgesic/digestive remedies groups (+11%) have also performed respectfully.

Price increases have held to 3% in most product groups with the exception of men's products where aftershave lotion and cologne product prices are sharply higher.

Chart 10: HBA Sales and Price Trends—Drug Chains vs. Independents

% Change Vs. Year Ago
First 6 months 1988



	Dollar Sales Trends		Unit Sales Trends*		Price Trends*	
	Drug Chains	**Drug Indpts**	**Drug Chains**	**Drug Indpts**	**Drug Chains**	**Drug Indpts**
Total Toiletries	10%	6%	7%	4%	4%	3%
Men's Products	7%	7%	1%	4%	6%	3%
Skin Care	17%	10%	12%	8%	4%	3%
Hair Care	10%	4%	7%	4%	3%	1%
Oral Hygiene	15%	7%	11%	6%	3%	1%
Color Cosmetics	14%	6%	11%	3%	3%	4%
Other Toiletries	2%	3%	− 1%	0%	3%	3%
Total Remedial	14%	3%	10%	1%	4%	2%
Cold/Cough/Flu/Sinus Remedies	11%	− 1%	8%	−3%	3%	2%
Analgesics/Digestive Remedies	14%	3%	9%	1%	5%	2%
External Medicines	18%	8%	15%	7%	3%	1%
Paper Goods	10%	− 1%	7%	−1%	3%	1%
Selected Sundries	8%	11%	3%	6%	4%	4%

6 months ending June 30, 1988 vs. 1987
*Weighted by dollar sales importance

Source: Nielsen Marketing Research

Drug chain dollar sales of the 66 categories in the Nielsen HBA Index increased by 11% during the first part of this year, while independent drug store HBA sales increased at a 4% rate.

Some categories are turning in outstanding performances: skin care, oral hygiene and external medicines are doing well in both chains and independent stores. Analgesics/digestive remedies and color cosmetics product groups are doing well in chain drug stores, as are selected sundries and men's products in independents.

The total dollar volume of the Nielsen HBA Index categories now represents 24.8% of chain drug total sales volume and 12.5% of total independent volume.

A total of 62 of the 66 categories tracked in the Nielsen HBA index registered sales increases during the first half of 1988. This was an increase of 21 categories over those that showed such growth last year.

A total of 14 categories fell in the "very hot" group and 11 categories in the "hotter" group.

Very few categories this year are suffering sales declines.

Chart 11: HBA Sales Whats Hot—Drug Stores
6 months ending June 30, 1988 vs. 1987

VERY HOT
(dollar sales increases
greater than + 15%)

*Baby bath products
*Early pregnancy test kits
*Baby lotion
*Diarrhea remedies
*Mouthwash
*Baby oil
*Diaper rash creams
*Suntan lotions and oils
*Eye markeup
*Sleeping tablets
*Sinus remedies
*Soft contact lens solution
*External analgesics
*Face creams and lotions

HOTTER
(dollar sales increases
over + 10% thru + 15%)

*Pre-moistened towelettes
*Dieting aids
*Hair fixatives
*Laxatives
*Foot remedies
*Face makeup
*Hand and body lotions
*Toothbrushes
*Internal analgesics
*Bath products
*Hair color

HOT
(dollar sales increases
over + 5% thru + 10%)

*Shampoo
*Disposable diapers
*After shampoo
*Throat lozenges
*Feminine douches

HBA Index average

*Topical hydrocortisones
*Acne remedies
*Denture cleaners
*Depilatories
*Dentifrice
*Batteries
*Blades and razors
*Dental floss
*Cough drops
*Eye drops and lotions
*Cold remedies
*Arthritic remedies
*Baby powder
*Stomach remedies/antacid
*Denture adhesives
*Aftershave lotion and cologne
*Hemorrhoid preparations
*Vitamins
*Nasal spray
*Talc/dusting powder
*Sanitary protection
*Deodorants
*Chapped lip preps
*Insect repellents
*Ethnic hair preps

WARM
(dollar sales increases
over + 0% thru 5%)

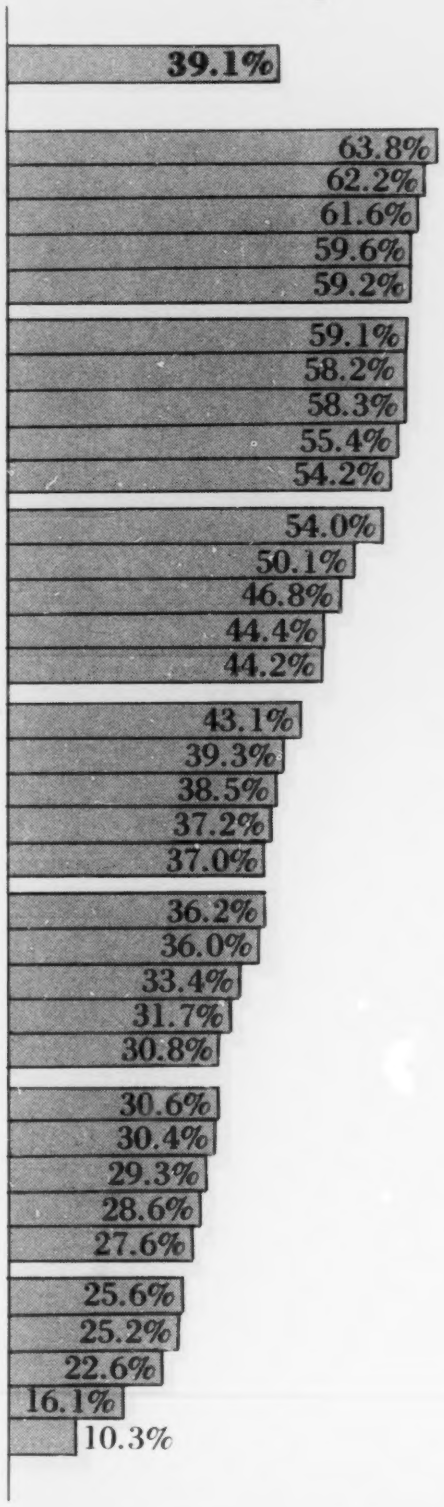
*Men's hair preps
*Lip makeup
*Home wave kits
*Nail color
*Shaving cream
*Cotton swabs
*Pet flea collars

NOT SO HOT
(no dollar sales
growth or decline)

*Cough syrup
*Women's contraceptives
*Women's fragrances
*Mousse

*indicates category is included in the Nielsen HBA Index

Chart 12: Division of Selected HBA Category Dollar Sales — Drug vs. Food vs. Mass Merchandisers



	First 6 months 1987 Drug	First 6 months 1988 Drug	Food	Mass Merchandisers
Total Nielsen HBA Index Categories	**38.4%**	**39.1%**	**43.7%**	**17.2%**
SELECTED HBA CATEGORIES				
Aftershave lotion/cologne	64.0%	63.8%	17.0%	19.2%
Topical hydrocortisones	62.9%	62.2%	26.9%	10.9%
Color cosmetics	60.1%	61.6%	18.5%	19.9%
Depilatories	57.1%	59.6%	24.7%	15.7%
Foot remedies	59.4%	59.2%	28.4%	12.4%
Laxatives	58.8%	59.1%	28.3%	12.6%
Face creams and lotions	57.3%	58.2%	24.0%	17.8%
Vitamins	57.6%	58.3%	29.0%	12.7%
Ethnic hair preps	60.0%	55.4%	23.3%	21.3%
Suntan lotion and oils	50.1%	54.2%	25.1%	20.7%
Hair color	52.9%	54.0%	20.2%	25.8%
Home wave kits	48.7%	50.1%	20.3%	29.6%
Bath oil	46.8%	46.8%	32.1%	21.1%
Cold remedies	44.9%	44.4%	44.9%	10.7%
Hand and body lotions	44.1%	44.2%	37.1%	18.7%
Stomach remedies/antacid	43.3%	43.1%	43.5%	13.4%
Men's hair preps	37.0%	39.3%	42.4%	18.3%
Feminine douches	39.3%	38.5%	40.4%	21.1%
Sinus remedies	36.7%	37.2%	50.7%	12.1%
Toothbrushes	36.4%	37.0%	45.7%	17.3%
After shampoo	35.8%	36.2%	43.3%	20.5%
Internal analgesics	35.4%	36.0%	51.6%	12.4%
Mousse	33.9%	33.4%	42.4%	24.2%
Shaving creme	31.2%	31.7%	48.3%	20.0%
Baby oil	28.8%	30.8%	43.8%	25.4%
Blades and razors	29.8%	30.6%	50.8%	18.6%
Hair fixatives	29.0%	30.4%	45.2%	24.4%
Mouthwash	28.6%	29.3%	51.7%	19.0%
Shampoo	27.3%	28.6%	51.0%	20.4%
Deodorants	27.7%	27.6%	50.6%	21.8%
Sanitary protection	24.5%	25.6%	58.5%	15.9%
Cotton swabs	25.4%	25.2%	53.8%	21.0%
Dentifrice	22.2%	22.6%	59.6%	17.8%
Pre-moistened towelettes	15.0%	16.1%	61.7%	22.2%
Disposable diapers	9.6%	10.3%	75.7%	14.0%

*6 months ending June 30

Source: Nielsen Marketing Research

For the first half of 1988, very strong consumer sales have helped drug stores increase their share of sales of Nielsen HBA Index categories to 39.1%. Drug stores share of sales are increasing in 24 out of 35 selected categories, a record number.

What happened to the two top "most-likely-to-be-bought-at-drug stores" categories? Aftershave lotion/cologne and topical hydrocortisones are first and second respectively in the share of sales in drug stores, both lost share as drug store prices rose faster than in competitive outlets.

Food stores accounted for 50% or more of sales in 11 categories while drug stores held 50% or more in 12 categories.

Food stores dominate the disposable diaper market by a wide margin, controlling 75.7% of sales.

Mass merchandisers share of HBA sales is holding steady this year after a sharp increase between 1986 and 1987.

CHAPTER IV:

HBA Inventory Trends

Chart 13: HBA Inventory Trends **Drug vs. Food vs. Mass Merchandisers**

% Change Vs. Year Ago
Nielsen HBA Index Categories

	Inventory level trends*		Inventory rate of turn average annual turns		Inventory rate of turn % change vs. year ago*	
	1987 First 6 months	1988	1987 First 6 months	1988	1987 First 6 months	1988
Three outlets combined	1% ▨	1% ▨	7.3 turns	7.4 turns	1% ▨	1% ▨
Drug stores	0%	1%	4.5	4.8	0%	7%
Food stores	2%	1%	10.5	10.3	0%	− 2%
Mass Merchandisers	3%	0%	7.7	8.3	11%	8%

6 months ending June 30
*Weighted by dollar importance

Source: Nielsen Marketing Research

HBA inventory levels for the three outlets combined have increased only 1% this year. Drug and food store inventory levels are up by 1%; and mass merchandisers inventory levels are unchanged.

Drug store operators, achieving an average turn rate of 4.8 times per year have increased inventory efficiency by another 7%. Food stores maintain the highest turn rate at 10.3 times per year, but this is slightly less efficient than last year.

Chart 14: HBA Inventory Trends—Drug Stores

% Change vs. Year Ago

	Inventory level trends*		Inventory rate of turn average annual turns		Inventory rate of turn % change vs. year ago*	
	1987 First 6 months	1988	1987 First 6 months	1988	1987 First 6 months	1988
Total Nielsen HBA Index categories	0%	1% ▨	4.5 turns	4.8 turns	0%	6% ▨
Total toiletries	− 1%	0%	3.9	4.1	1%	7%
Men's products	0%	− 6%	4.2	4.6	2%	8%
Skin care	0%	5%	4.1	4.3	3%	6%
Hair care	− 3%	− 1%	4.2	4.5	0%	7%
Oral Hygiene	− 5%	3%	5.1	5.5	5%	8%
Color cosmetics	5%	2%	2.2	2.3	− 4%	6%
Other toiletries	− 1%	− 4%	3.8	3.9	0%	4%
Total remedial	0%	1%	5.0	5.3	− 1%	6%
Cold/cough/flu/sinus remedies	− 4%	2%	5.2	5.3	2%	2%
Analgesics/digestive remedies	0%	− 2%	4.8	5.3	− 3%	9%
External medicines	6%	10%	5.3	5.4	2%	3%
Paper goods	− 2%	1%	6.5	6.8	0%	5%
Selected sundries	5%	5%	5.4	5.3	1%	− 1%

6 months ending June 30
*Weighted by dollar sales importance

Source: Nielsen Marketing Research

Drug stores are managing inventory levels tightly this year permitting only a slight overall increase. On top of sharp sales increases, turn rates have increased 6% to 4.9 turns per year.

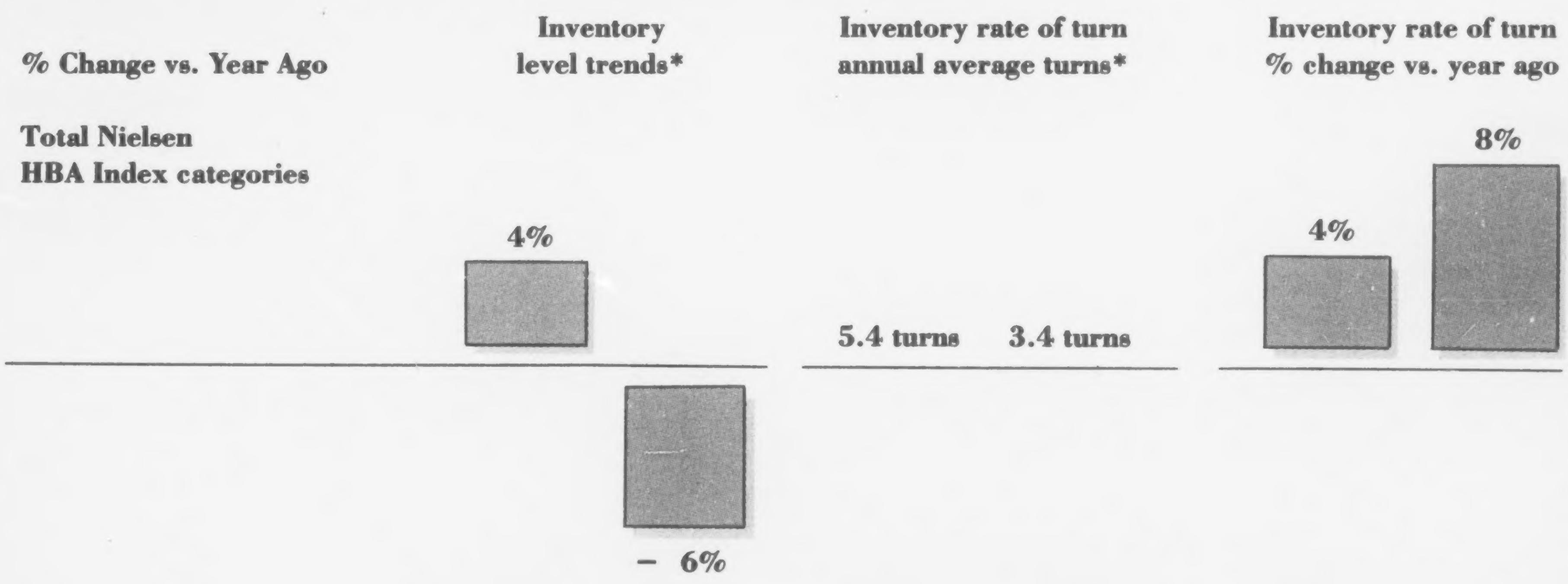
Turn rates for toiletries increased 7%, with men's products oral hygiene categories improving by 8%. The inventory turn rates for analgesic/digestive remedies increased by 9%.

The selected sundries group, particularly batteries, is the only product group with a decline in turn rates this year: (− 1%)

Independent drug store retailers continue to do an outstanding job improving inventory efficiency: a 6% reduction of inventory levels with an 8% increase in inventory turnover.

Drug chains increased store level inventory by 4% but this increase was more than offset by sales increases. Turnover has improved by 4% this year in chain drug outlets.

Chart 15: HBA Inventory Trends—Drug Chains vs. Independents



% Change vs. Year Ago	Inventory level trends*		Inventory rate of turn annual average turns*		Inventory rate of turn % change vs. year ago	
	Drug Chains	Drug Indpts	Drug Chains	Drug Indpts	Drug Chains	Drug Indpts
Total toiletries	2%	− 5%	4.6 turns	2.7 turns	5%	9%
Men's products	− 5%	− 7%	5.3	2.7	7%	11%
Skin care	8%	− 3%	4.9	2.9	4%	10%
Hair care	0%	− 4%	4.9	3.1	7%	8%
Oral Hygiene	4%	− 2%	6.0	3.8	7%	7%
Color cosmetics	6%	− 5%	2.7	1.5	5%	8%
Other toiletries	− 3%	− 8%	4.5	2.4	2%	9%
Total remedial	6%	− 7%	6.0	4.1	4%	8%
Cold/cough/flu/sinus remedies	11%	−10%	6.0	4.2	−3%	8%
Analgesics/digestive remedies	1%	− 7%	6.0	4.0	8%	10%
External medicines	14%	2%	6.2	3.9	2%	4%
Paper goods	3%	− 7%	7.4	4.1	4%	4%
Selected sundries	6%	− 1%	5.6	4.1	−3%	8%

6 months ending June 30, 1988 vs. 1987
*Weighted by dollar sales importance

Source: Nielsen Marketing Research

CHAPTER V:

Space Allocation

Chart 16: HBA Average Linear Feet of Shelf Space—By store type

	Drug Chains		Drug Large Independents		Food Chains Over $2 million		Mass Merchandisers	
	1987	1988	1987	1988	1987	1988	1987	1988
Selected Toiletries and Personal Care								
After shave lotion/cologne	31 ft.	29 ft.	19 ft.	20 ft.	8 ft.	8 ft.	20 ft.	21 ft.
Dentrifice	59	57	20	24	48	44	58	64
Denture adhesive/cleanser	23	23	14	13	11	10	21	23
Deodorants	67	67	28	30	49	46	103	103
Face creams and lotions	27	23	14	15	11	9	21	20
Hair coloring	72	70	24	27	20	21	75	77
Hair fixitives	45	56	14	26	24	32	61	78
Hair preparations	70	62	28	29	36	35	73	74
Hand lotions and creams	30	31	18	20	15	16	35	35
Home wave kits	16	15	8	7	6	5	21	23
Mouthwash	31	31	11	12	19	19	47	47
Shampoos	69	63	28	30	44	43	87	87
Shaving cream	23	20	9	10	12	12	27	28
Selected Remedial Categories								
Acne remedies	18	17	14	13	8	8	15	14
Stomach remedies/antacids	36	37	24	25	15	16	37	34
Chest rubs	7	7	5	6	3	2	4	4
Cold and sinus remedies	47	52	30	34	22	24	34	36
Cough syrups	19	20	12	14	8	8	13	13
Internal Analgesics	59	63	33	38	31	33	51	51
Laxatives	38	36	26	28	11	11	23	24
Nasal sprays and drops	10	10	7	8	5	5	7	8
Vitamins	90	85	54	58	36	37	91	81
Selected Paper Products								
Disposable diapers	49	55	13	13	60	61	58	52
Sanitary napkins	57	61	23	24	43	41	75	67
Tampons	20	24	10	11	14	15	21	22

End of April basis for space allocation
NA = Not available

Source: Nielsen Marketing Research

A total of 9 of the 25 selected HBA categories surveyed in chain drug stores were allotted more shelf space than they had in 1987. Of these 9, hair fixatives was the biggest gainer with an additional 9 feet of shelf space. Paper products categories and cold and sinus remedies also got healthy space increases.

While 9 product categories went up, 11 selected categories were allocated less shelf space in chain drug outlets including hair preparations, vitamins and shampoos.

Independent drug stores gave additional space to 21 of 25 categories. Hair fixatives gained the most of any category. Only 3 categories lost shelf space, with each only losing 1 foot.

9 HBA categories received additional shelf space from chain food stores while mass merchandisers increased the shelf space of 13 categories.

Chart 17: HBA Average Dollar Sales Per Month Per Linear Foot Of Space—By store type

	Drug Chains		Drug Large Independents		Food Chains Over $2 million		Mass Merchandisers	
	1987	1988	1987	1988	1987	1988	1987	1988
Selected Toiletries and Personal Care								
Dentifrice	$18.77	$19.56	$11.38	$9.76	$44.96	$56.07	$45.26	$43.25
Denture adhesives/cleansers	19.78	19.36	8.54	9.12	34.92	43.77	25.73	33.05
Deodorants	25.37	25.54	12.20	12.06	46.23	54.56	37.58	38.95
Face creams and lotions	39.39	47.88	22.53	22.55	36.05	49.55	54.88	55.62
Hair coloring	17.47	19.04	9.68	8.86	22.34	25.12	24.88	23.80
Hair sprays	17.16	19.39	12.36	9.39	35.74	38.90	35.20	33.00
Hand and body lotions	27.22	27.75	15.96	14.73	38.30	42.39	32.66	35.82
Home wave kits	19.37	19.48	8.46	8.58	18.36	23.05	26.90	22.76
Mouthwash	20.75	24.30	15.70	15.60	48.60	62.66	28.37	33.77
Shaving Cream	12.59	13.87	8.45	7.57	26.52	29.09	21.99	20.40
Shampoos	21.98	24.56	14.62	13.76	49.65	56.59	41.90	41.77
Selected Remedial Products								
Acne Remedies	19.17	21.25	9.18	10.18	31.98	39.25	NA	NA
Stomach remedies/antacids	28.52	28.36	18.51	18.25	50.91	55.47	32.68	36.98
Internal analgesics	44.14	44.14	28.93	26.10	93.67	101.51	62.49	68.58
Laxatives	29.48	33.68	20.20	20.42	45.92	53.15	38.15	41.99
Nasal sprays and drops	31.84	33.21	20.11	18.27	48.92	54.95	36.25	31.07
Vitamins	19.95	20.92	15.50	14.00	26.39	28.24	18.33	17.89
Selected Paper Products								
Disposable diapers	27.12	24.64	15.54	13.39	113.67	122.29	92.99	107.69
Sanitary protection	21.75	19.92	12.55	12.44	50.95	55.53	32.89	38.16

Year ending April 30 for sales
NA = Not Available

Source: Nielsen Marketing Research Survey

Face creams and lotions jumped up more than $8.00 per linear foot per month to become the highest selling category of the 19 measured categories in chain drug stores. Both reduced space allocation and strong sales pushed the category to sales of $47.88 per foot per month.

In chain drug stores, face creams and lotions replaced internal analgesics as the top seller. In drug independents, internal analgesics stayed as the top selling category at $26.10 per linear foot.

Disposable diapers are still the top selling HBA category of the 19 examined in both large chain grocery stores and mass merchandisers. In grocery stores at $122.99 and in mass merchandisers at $107.69 per linear foot per month, this category is far ahead of others.

In food chains, internal analgesics became the second product category to break the $100 per foot per month level. Sales averaged $101.51 in food chains, up 9% over last year.

CHAPTER VI:

Drug Store Merchandising

Chart 18: Drug Store Merchandising/Operation Strategies—Drug Chains

All commodity volume basis—End of February 1988
By Nielsen Territory

	Total U.S. 1987	Total U.S. 1988	New England 1988	Metro New York	Middle Atlantic	East Central	Metro Chicago	West Central	South-East	South-West	Metro L.A.	Pacific
Open 24 hours	5%	**7%**	0%	0%	9%	12%	21%	15%	7%	0%	0%	4%
Pharmacy computer system	71	**86**	80	64	64	94	99	62	87	99	93	94
Cosmetician	34	**30**	33	27	18	24	80	46	27	48	25	20
Pre-recorded video tapes	14	**13**	21	0	20	11	37	15	12	16	0	9
Film developing	98	**98**	100	78	98	100	99	96	99	95	100	99
Lottery tickets sold	27	**29**	12	20	20	16	16	31	38	4	86	33
Alcoholic beverages sold												
Any	56	**64**	15	6	34	70	90	60	68	62	85	90
Liquor	30	**32**	2	0	0	31	90	52	6	22	85	62
Beer	55	**63**	15	6	34	69	90	60	68	62	85	86
Wine	46	**53**	7	0	10	67	90	52	41	54	85	86

Source: Nielsen Marketing Research

The most popular "extra" in drug chains across the country is film processing, 98% of all drug chains offer film processing to their customers. Penetration of the service is virtually complete in all areas of the country except New York.

At the same time, pharmacy computerization is rapidly becoming an essential in drug chains, 86% of all chains now have pharmacy computers, up from 71% last year. In the Nielsen East Central, Metro Chicago, Southwest, Metro L.A., and Pacific regions, over 90% of all drug chains have pharmacy computer systems.

Alcoholic beverages are now sold in 64% of all chain drug stores and are especially prominent in the Metro Chicago, Metro L.A. and Pacific regions.

Being open 24 hours is offered in only 7% of drug chains in the U.S. Metro Chicago, West Central and the East Central are the only regions in which this extra is in more than 10% of the stores.

Other merchandising strategies that are popular in specific areas of the country include: cosmetician services (80% of Chicago area chains); lottery tickets (80% of Metro L.A. chains) and prerecorded video tapes (popular in New England and Chicago).

CHAPTER VII:

Retailer Advertising

Advertising space allocated to institutional promotion once again held the highest share of drug store advertising, jumping from 16% of space to 22% in 1987. HBA personal care product advertising moved to 16% of space, a 2 point increase.

Less drug retail ad space was devoted to miscellaneous general merchandise.

Chart 19: Retailer Advertising Space Trend—All Drug Stores

Percent Of Ad Space Devoted To:

	1984	1985	1986	1987
Total ad space	100%	100%	100%	100%
Cosmetics	4%	6%	6%	6%
Pharmacy	1%	*	1%	*
HBA—personal care	14%	12%	14%	16%
HBA—health	7%	8%	8%	7%
Liquor	4%	4%	4%	4%
Food products	8%	7%	7%	7%
Institutional	13%	15%	16%	22%
Household supplies	5%	4%	4%	4%
Automotive	1%	2%	1%	1%
Home electronics	10%	9%	8%	7%
Soft goods	3%	5%	3%	3%
Miscellaneous general merchandise	30%	28%	28%	23%

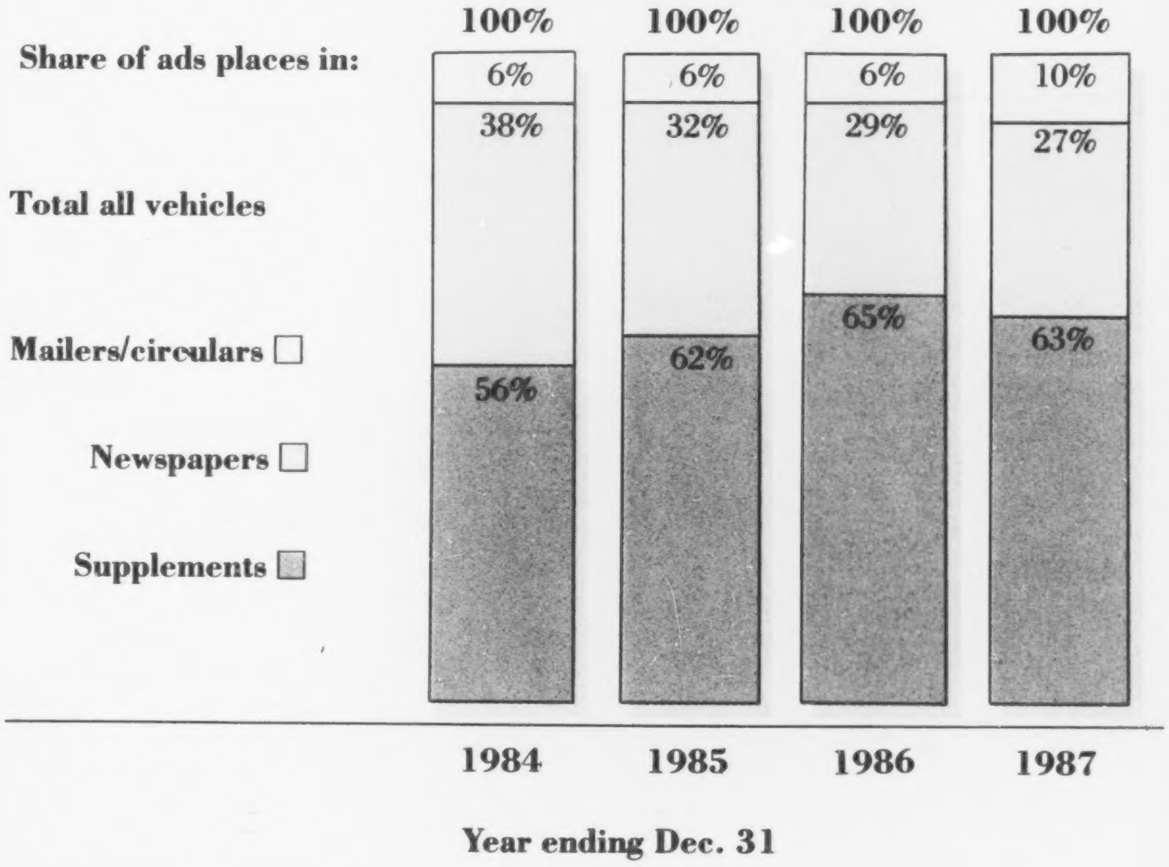
Year ending Dec. 31

*indicates less than .5%

24 markets—seven day coverage

Source: Nielsen Marketing Research

Chart 20: Share Of Ads By Medium—All Drug Stores



*indicates less than 1%

24 categories/24 markets—seven day coverage

Source: Nielsen Marketing Research

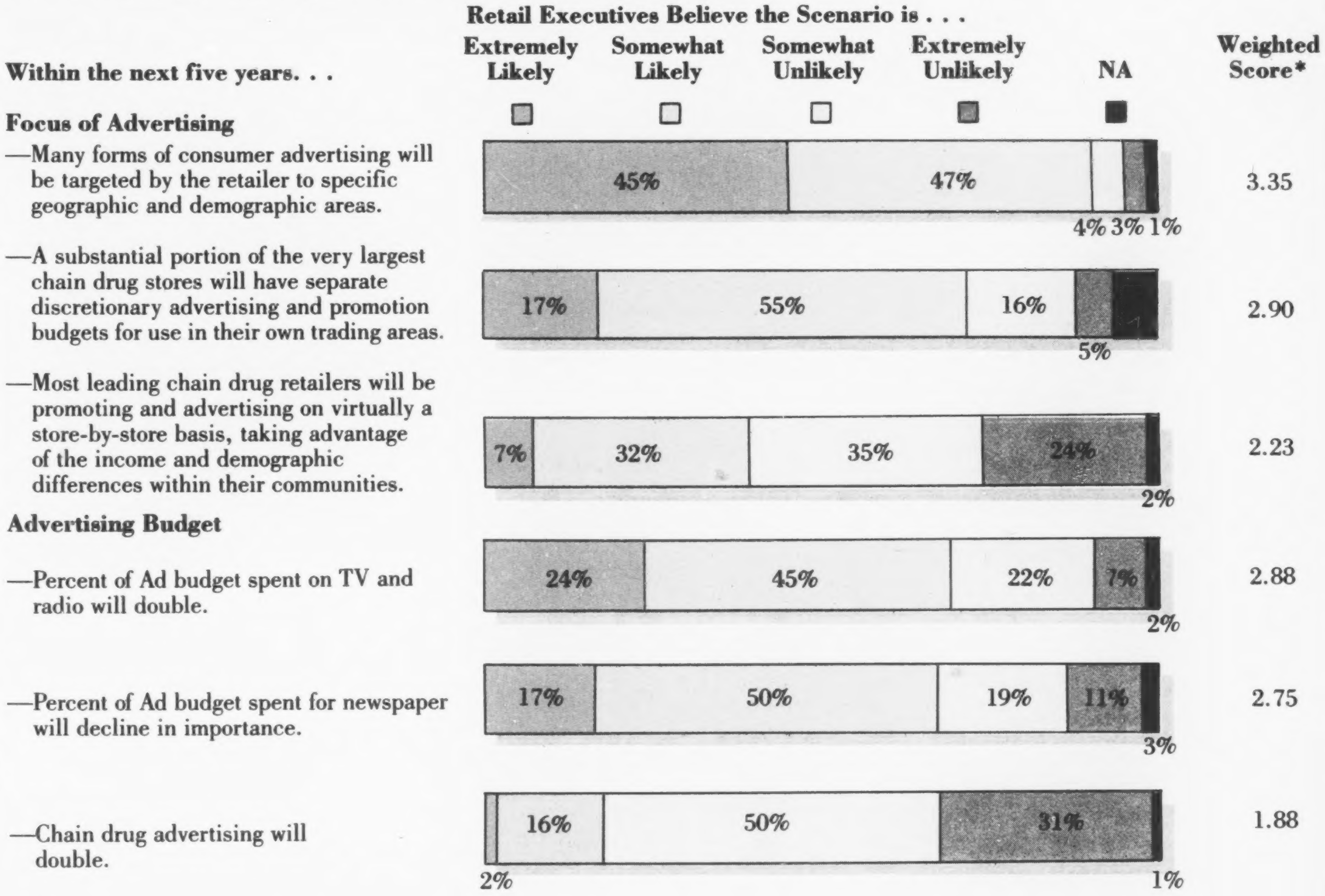
Drug retailers devoted a greater portion of advertising expenditures to mailers and circulars in 1987.

Supplements and newspapers paid the price as both dropped 2 share points. Newspaper advertising, which has been declining since 1983, is down to 27%. Supplements, the traditional advertising medium of choice for drug retailers, dropped to a 63% share.

Chapter VIII:

Executive Outlook

Chart 21: Advertising Allocation—Chain Drug Stores



*Weighted Score in favor of likelihood; therefore, the higher the score above 2.50 the more likely it is to occur
Source: 1988 SUMMA Group Retail Chain Drugstore Executive Outlook Survey

The trend toward highly focused communications targeted to geographically and demographically selected consumers will be the driving force behind chain drug advertising efforts over the next five years, according to the findings of the 1988 SUMMA Group chain drug store executive survey.

While most retailers feel a doubling of advertising expenditures is unlikely, almost 1 out of 5 chain drug store executives think their budget will double in the next five years.

Three quarters of the executives interviewed by the SUMMA Group, a part of Nielsen Marketing Research, felt that the very largest chain drug stores will have separate discretionary advertising and promotion budgets for use in their own trading areas.

Almost 4 out of 10 feel it is likely that more leading chain drug retailers will take advantage of the income and demographic differences within their communities by promoting and advertising on virtually a store-by-store basis.

Expenditures on electronic media will consume a greater proportion of the advertising budget over the next five years.

In particular, many retailers indicate the expectation that their use of cable TV will be greatly expanded to accommodate the communication of weekly features.

Based on the expectation of key executives, the use of circulars, mailers and in-store flyers will be relatively unchanged over the next five years.

Although newspaper advertising will continue to be the dominant advertising medium, there will be a continued trend away from run-of-press advertising. This will favor newspapers capable of delivering inserts and supplements, particularly full-color ROTOS.

Chart 22: Advertising Budget — Chain Drug Stores

	Total Advertising Budget Allocation		
	Currently	**In the Next 5 years**	**Share Point Change**
Total	**100.0%**	**100.0%**	—
Run-of-press newspaper	26.6	18.7	−7.9
Full-color Roto Supplements	13.8	16.3	2.5
Non-roto supplements/inserts	7.4	7.1	−0.3
Circulars	23.2	22.6	−0.6
Mailers	9.7	8.3	−1.4
In-store flyers	3.0	3.2	0.2
TV spot network	7.5	10.6	3.1
Radio	6.0	8.0	2.0
Cable TV	0.5	3.0	2.5
Other Media	2.3	2.2	−0.1

Source: 1988 SUMMA Group Retail Chain Drugstore Executive Outlook Survey

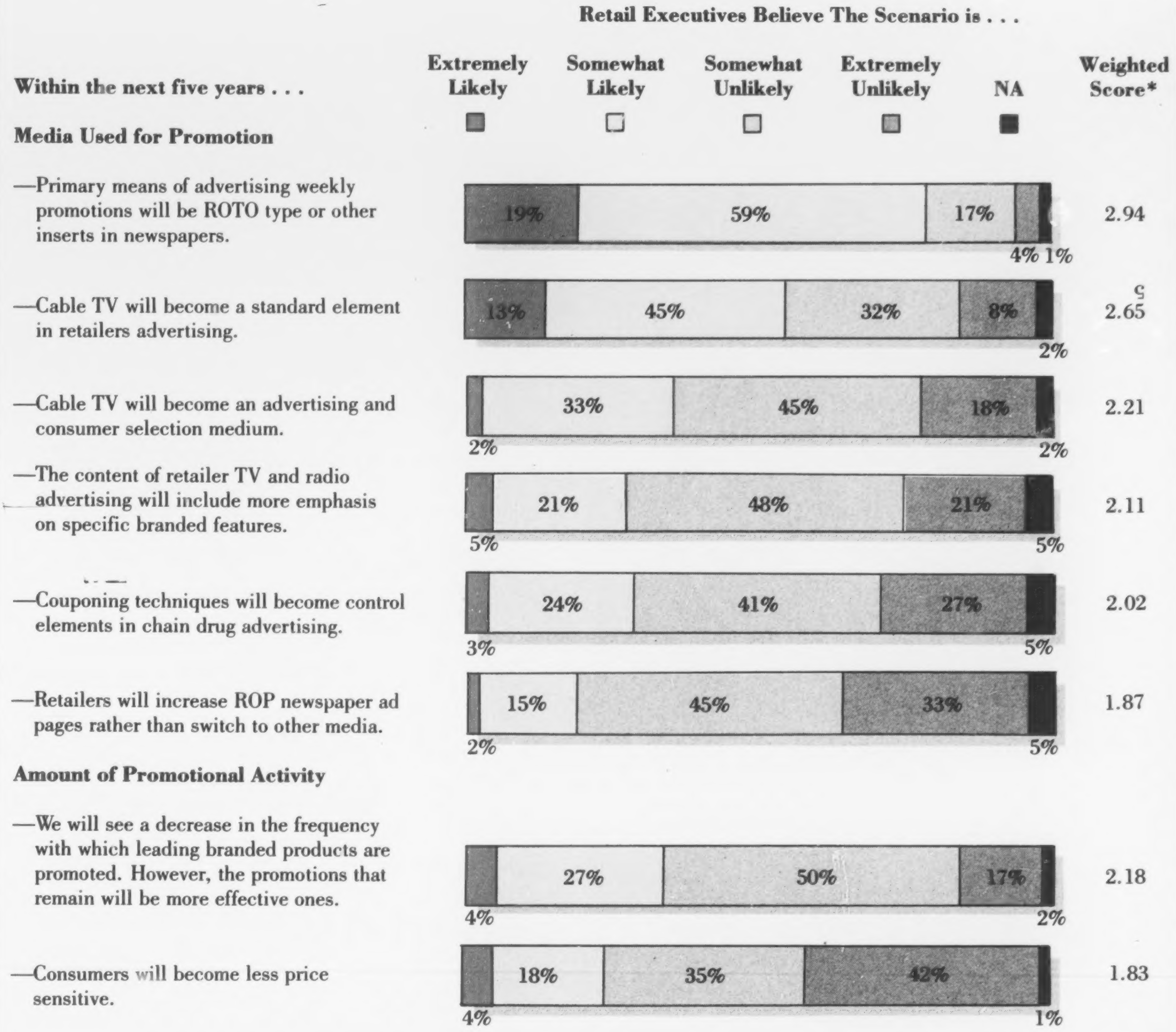
It is apparent that executives anticipate sharp increases in the relative use of all forms of the electronic media, with cable TV up 2.5 points, regular spots/network TV up 3.1 points, and radio up 2.0 points as a share of total advertising budget allocations.

The trend away from the use of run-of-press newspaper advertising 34% in 1983, 27% in 1985, and 27% today will continue over the next five years when it is expected to represent only 19% of the chain drug store's, advertising budget. The proportion of newspaper advertising devoted to full color ROTO supplements is expected to increase.

Overall use of circulars, mailers and in-store flyers is expected to be off 1.8 points (a marginal 5% decline).

Executives feel the use of mailers specifically will become somewhat less common.

Chart 23: Media Usage/Promotional Activity — Chain Drug Stores



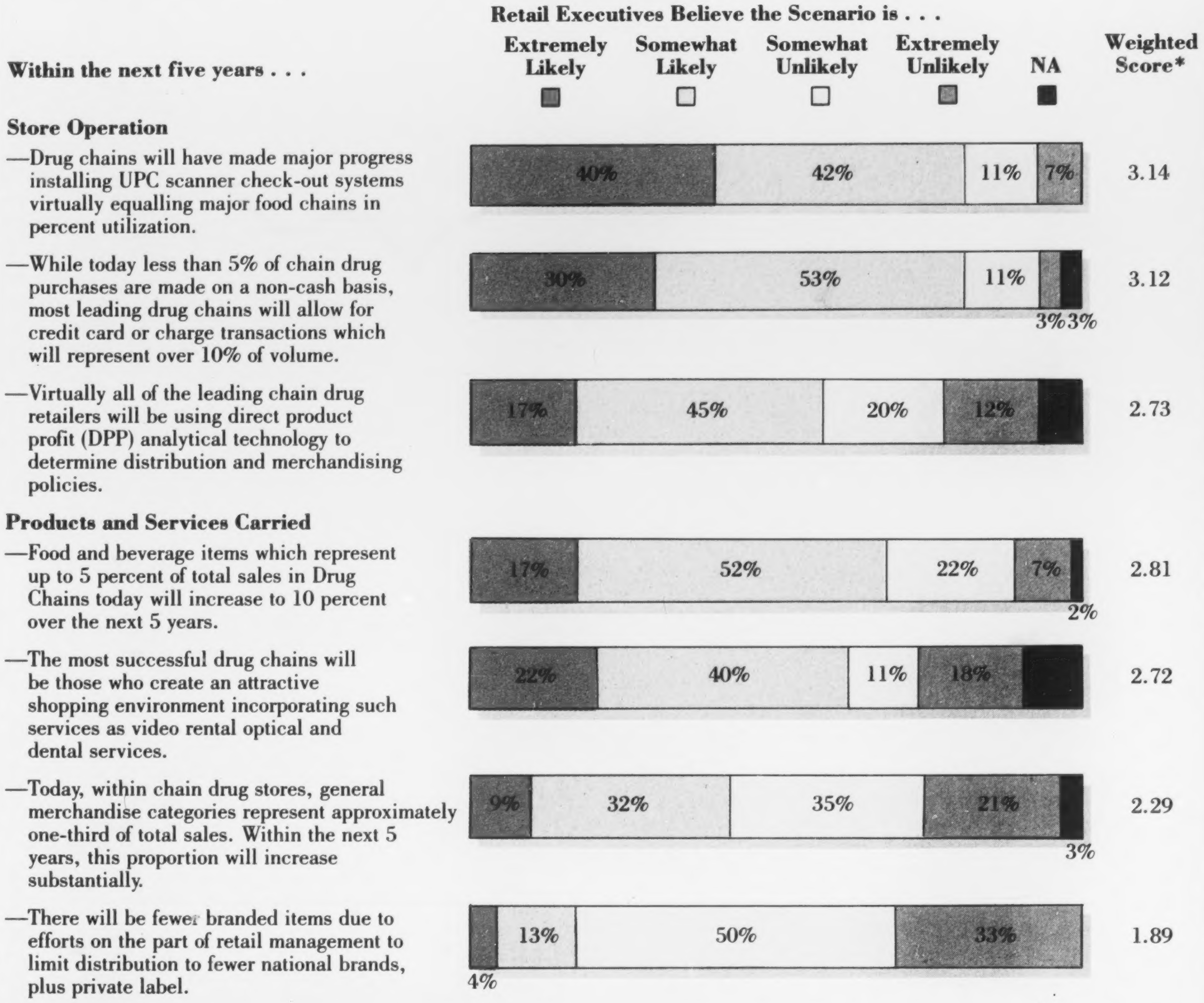
***Weighted Score in favor of likelihood: therefore, the higher the score above 2.50 the more likely it is to occur**

Source: 1988 SUMMA Group Retail Chain Drugstore Executive Outlook Survey

Chain drug retailers have come to rely heavily on various forms of promotions, and indications are that promotions will not go away, but they may change, becoming highly targeted and used far more judiciously.

The majority of chain drug executives expect that ROTO's and other types of supplements or inserts in newspapers will be the primary means of advertising weekly promotions in the next five years. One half of all chain drug executives feel cable TV will become a standard element in retail chain drug advertising.

Chart 24: Technology and Services — Chain Drug Stores



*Weighted Score in favor of likelihood; therefore, the higher the score above 2.50 the more likely it is to occur
Source: 1988 SUMMA Group Retail Chain Drugstore Executive Outlook Survey

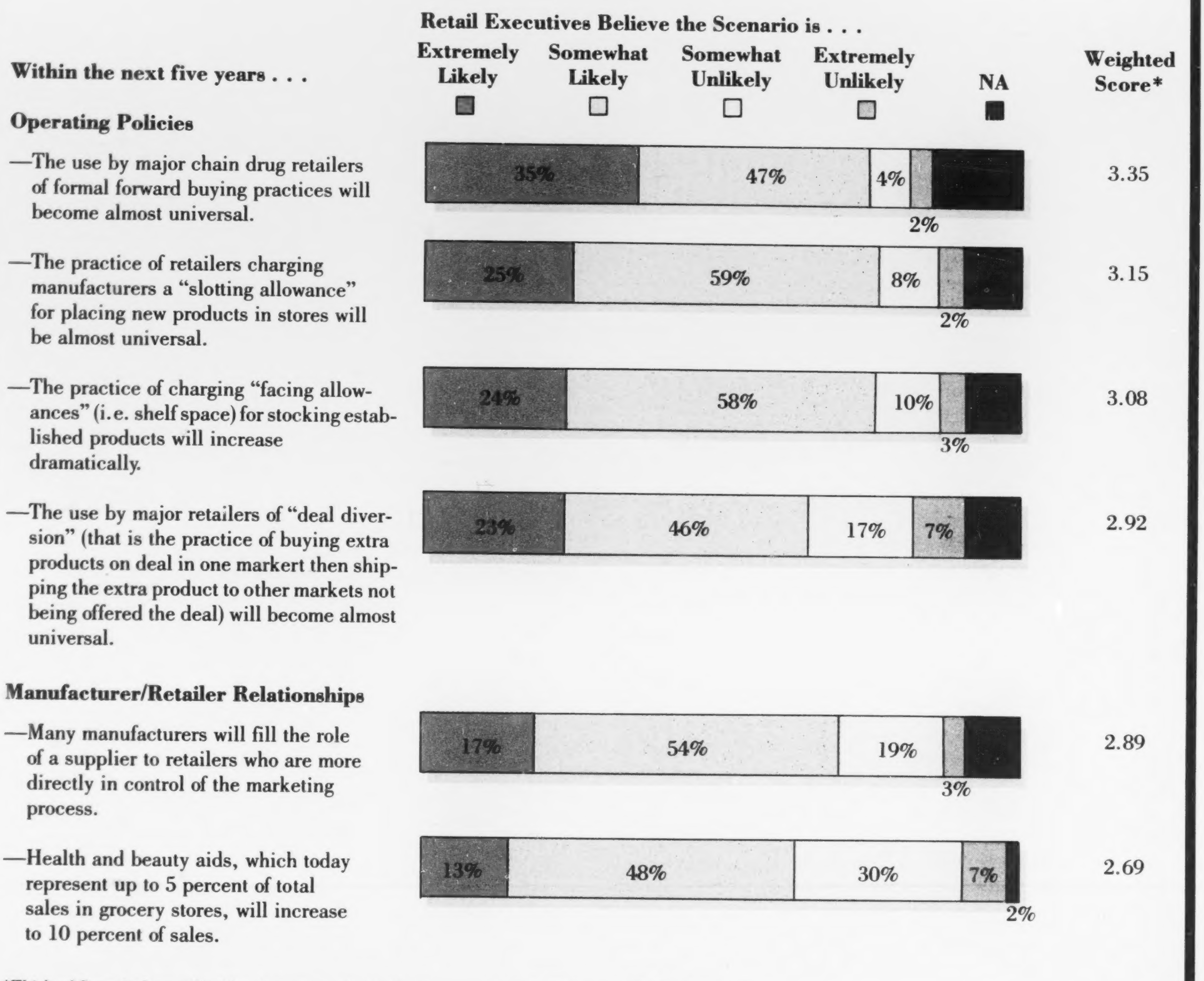
Drug chains are rapidly joining the retail movement toward greater use of technology in the determination of product distribution and merchandising.

More than 8 out of 10 key executives feel that their utilization of UPC scanner check-out systems will equal that in major food chains in five years. A majority expect to see the use of direct product profit (DPP) in drug chains to determine distribution and merchandising policies.

More than 6 out of 10 executives feel that the ability to more precisely identify the contribution made to sales by various typical chain drug products will enable them to weed out those that are less profitable and shift their attention to key items in food and beverages. Drug store retailers expect that sales volume in these categories will double in the next five years.

Executives will attempt to expand the services offered by their chains to make their shopping environment more attractive to customers. The services most often cited for expansion include video rental, optical services and dental services.

Chart 25: Operating/Buying Policies—Chain Drug Stores



*Weighted Score in favor of likelihood; therefore, the higher the score above 2.50 the more likely it is to occur.
Source: 1988 SUMMA Group Retail Chain Drugstore Executive Outlook Survey

The availability of better data through the use of scanners and DPP technology will lead to greater sophistication on the part of chain drug retailers. The ability to determine more precisely the value of space and the contribution of profit by specific products will place retailers in a stronger position viz a viz the manufacturers.

A clear majority of chain drug executives feel the practice of formalized forward buying will be almost universal with major chains within five years.

Knowing the value of space within their own stores is expected to place a premium on the access to that space.

More than 8 out of 10 chain drug retailers feel the practice of charging "slotting allowances" to manufacturers for the use of space for new products will increase. A similar percent expect that charges for space for existing products (i.e., facing allowances) is a likely scenario in the next five years.

For this year's survey, the SUMMA Group mailed out 336 questionnaires. There were 114 responses (a response rate of 34%). Those who responded represented 50% of total chain drug store revenues.

New Sacramento Price Less opens

Price Less is opening its second deep discount store, which will have pharmacy at the rear of its layout.

CARMICHAEL, Calif. — Four years after opening his first Price Less unit in nearby Rancho Cordova, chain drug veteran George Jeffers brought his concept of friendly, full-service off-price retailing to a second location in early October.

Both units serve the greater Sacramento market, but the second store lies several miles closer to the city limits and draws on a denser population base.

"In the older store, we've got 220,000 people in a five-mile radius to the store," Jeffers said, "but in the new location we're drawing on a five-mile population of about 320,000. Carmichael is not a high-growth population area like Rancho Cordova, but we'll look forward to growing our sales volume there through word of mouth and our merchandising techniques."

Those techniques have been enough to more than double annual sales at the original Price Less store since 1985, when it notched $4 million in sales at the end of its first full year. With sales booming ahead 17.5 percent this year, Jeffers expects revenues this year to hit $9.3 million.

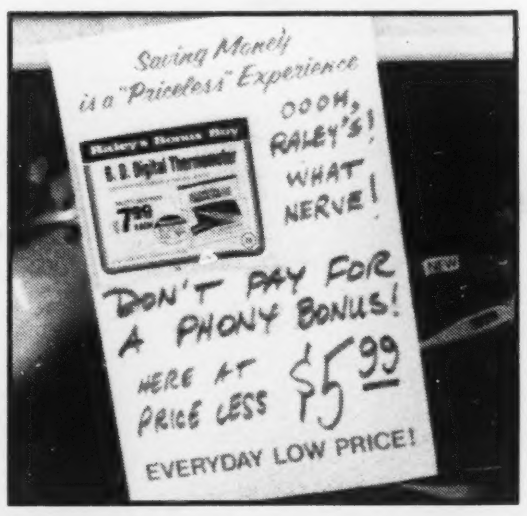
The second Price Less unit will feature the same steep discounts on prescription and OTC drugs, H&BA, stationery, cosmetics, candy, paper and household goods and appliances, in a larger setting.

The new store is 25,000 square feet (20,000 selling) compared with 16,000 square feet of selling floor for the first store. That, combined with the sales strategies Jeffers and his staff have honed in four years of business and Carmichael's denser customer base, should be enough to power sales to $5 million at the new location its first year, the Price Less founder said.

The added space will be devoted to "some categories we didn't give enough space to in the first store that have done much better than we expected," Jeffers said.

Among them: professional hair care, which will be given more than its 20 feet of shelf space in the first Price Less; hair care accessories from Goody and Vidal Sassoon, which will go from 24 to 32 linear feet; personal care and household appliances, which will attain their own permanent section; general housewares/storage, which will get a 12-foot, in-line section compared with endcaps in the original unit; and underwear/hosiery from Fruit of the Loom, Hanes and No Nonsense.

The new unit will also feature a more traditional format, with the pharmacy in the rear. At the Rancho Cordova store, Price Less generates 1,600 scripts a week. —*J. F.*


Saving Money is a "Priceless" Experience
OOOH, RALEY'S! WHAT NERVE!
DON'T PAY FOR A PHONY BONUS!
HERE AT PRICE LESS $5.99
EVERYDAY LOW PRICE!

Shoppers respond to the sense of humor evident in Price Less shelf signs.

[redacted]

A sampler of items deep discounters emphasized in their June ads

Brand	Model	Advertised price	Chain
Benadryl	Tabs/caps 24s	$2.85	Drug Emporium
Sylvania	3-way bulbs	1.37	Drug Emporium
Alpha Keri	3.7 oz. moisturizer	3.75	Drug Emporium
Polident	120 ct tabs	3.99	Drug Emporium
Clairol Condition	6 oz. mousse	4/5.00	Drug Emporium
Gillette	Good news/Daisy razors 10 ct	1.99	Drug Emporium
Alka Seltzer Extra Strength	12	1.69	Drug Mart
Charmin Bath Tissue	6-roll pack	1.69	Drug Mart
Milky Way	6 bars	1.99	Drug Mart
Diet Pepsi	2 liter	0.97	Drug Mart
Metamucil	14 oz.	5.99	Drug Mart
Lady Trojan	12 ct	2.69	Drug Mart
J&J Bandages	60 ct	0.90	Phar-Mor
Fibre Trim	18 ct	6.38	Phar-Mor
Philips Longer Life Bulbs	4 pk	1.99	Phar-Mor
Neutrogena Bath Soap	3.5 oz.	1.38	Phar-Mor
Mennen Baby Magic Baby Oil	9 oz.	1.94	Phar-Mor
Glad-Lock Storage Bags	20 ct	1.58	Phar-Mor

Source: Vereen & Associates

A sampler of items deep discounters emphasized in their July ads

Brand	Model	Advertised price	Chain
Coppertone Suntan Lotion	4 oz.	$2.99	Bud's
Crest Toothpaste	6.4 oz.	1.37	Bud's
Duracell Batteries	2 pk-C or D	1.63	Bud's
Eveready Batteries	2 pk-C or D	1.69	Bud's
Mennen Lady Speed Stick	1.5 oz.	1.39	Bud's
Yes Laundry Detergent	64 oz.	1.89	Bud's
Advil	100 ct	5.59	Drug Mart
Anacin	100 ct	3.99	Drug Mart
Listerine	32 oz.	3.29	Drug Mart
Rolaids	150 ct	2.57	Drug Mart
Theragran-M	160 ct	6.99	Drug Mart
Wonder Hot Dog Rolls	1 pk	0.85	Drug Mart
Jergens Lotion	12.5 oz.	1.99	Drug Emporium
Flame Glow Mascara		2.02	Drug Emporium
No Nonsense	Sheer & Silky	2.99	Drug Emporium
Mylanta II	12 oz.	2.98	Drug Emporium
Freeman Therapy Shampoo	16 oz.	2.44	Drug Emporium
Summer's Eve Feminine Wash	8 oz.	1.89	Drug Emporium
Bic Razor	10 ct	0.89	Thrif D
Centrum Vitamins	130 ct	7.49	Thrif D
Efferdent	40 ct	1.59	Thrif D
Rolaids	Reg./spearmint 75 ct	1.39	Thrif D
Scope	Peppermint/Reg. Mint 24 oz.	2.69	Thrif D
WD-40	9 oz.	1.49	Thrif D

Source: Vereen & Associates

Melville's muscle powers growth of Freddy's chain

ROCHESTER, N.Y. — Freddy's, the off-price weapon in Melville Corp.'s retail arsenal, is drawing on Melville's financial muscle to boost its market penetration in upstate New York, central and southern Virginia, and Florida.

The deep discount drug chain has added six stores in the past year to boost its store count to 18 units, and will open "a number" of stores next year, according to chain president and founder Fred Silverstein. The first of those will be a Freddy's in Florida's Dade County next February, he said.

Freddy's now operates six units in the upstate New York cities of Rochester, Buffalo, Syracuse and Niagara Falls; nine units in Florida, including five in Broward County, three in the Tampa/Clearwater area and one in Orlando; and three units in Virginia.

Although Silverstein would not discuss specific expansion objectives, he said the financial backing of its parent company has enabled Freddy's to accelerate its growth. The off price chain came under Melville's corporate wing five years ago, but operates completely independently of the holding company's CVS chain drug division, Silverstein told *Drug Store News*.

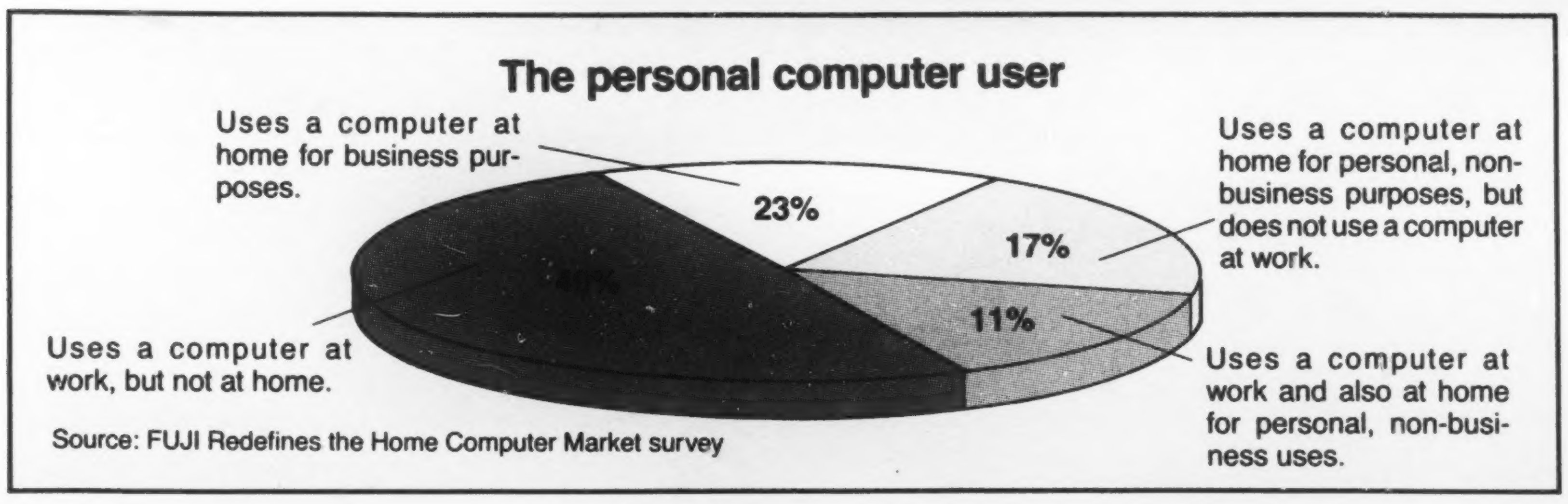
Last spring, Freddy's opened up new market opportunities with the purchase of three former Pathmark Super Drug stores from F & M Distributors. The stores, in Richmond, Hampton and Virginia Beach, Va., give the chain a base for growth in the mid-Atlantic region, midway between its upstate New York and Florida market bases.

"Our expansion next year will generally be targeted to upstate New York and Florida, and we will be building on our presence in Virginia," Silverstein said. "We had planned to move into Virginia anyway, so it was fortunate that the F & M stores became available."

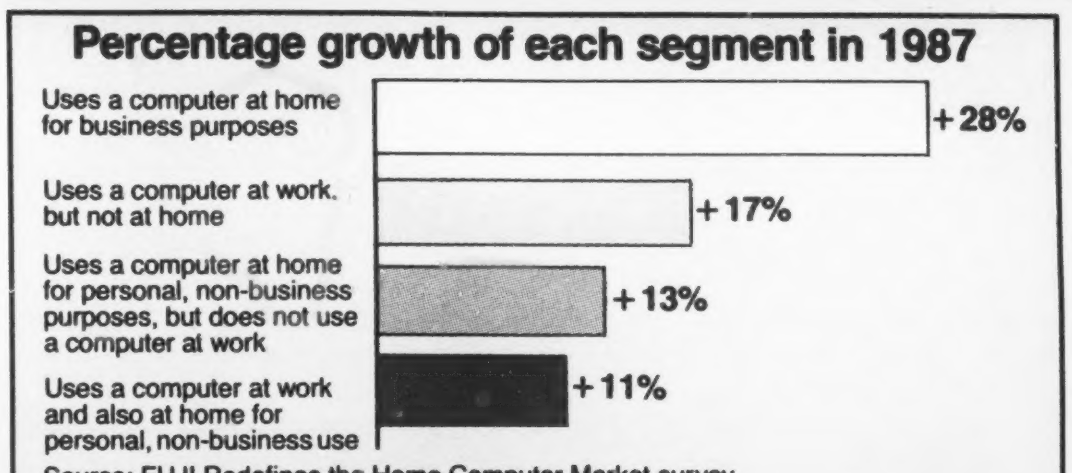
Silverstein said Freddy's continues to operate stores averaging about 27,000 square feet (17,000 selling), with the main focus on drug store basics at discounts of 30 percent to 50 percent or more.

"The emphasis is still on brand-name items, most heavily in the areas of H&BA, cosmetics, stationery/home office/school supplies, pharmacy, greeting cards and candy and snacks," he said. "The basic concept hasn't changed much since our association with Melville, but it's always being refined."

Except at grand opening events, the chain also continues to rely on word-of-mouth for advertising. —*J. F.*



Source: FUJI Redefines the Home Computer Market survey



Source: FUJI Redefines the Home Computer Market survey

Computer retailing channels encompass drug stores: study

NEW YORK — A new market, the home office, is emerging in the personal computer industry, a survey released by Fuji Photo Film U.S.A. reports. This new market, the survey revealed, is a direct result of the growth of personal computers from the corporate environment to the home.

The survey, *Fuji Redefines the Home Computer Market*, conducted by InfoCorp, also stated that the channels of distribution for personal computing accessories and supplies are expanding to new types of retail outlets, such as software specialty stores, office supply superstores, and drug stores.

Approximately 17 million households in the U. S. use a personal computer, and more people are using them at home to extend their workday or start new businesses.

Survey findings reported 90 percent of home-office workers use a computer at home at least once a week, and 62 percent use one three or more times per week. Also, almost half of the home-office workers surveyed expect to spend more time using their computers at home in the next six months.

Having become comfortable with using a computer at the workplace, people are willing to invest in home computing equipment for business purposes comparable to what they use on the job.

An average of $1,688 is spent by the typical home-office worker who uses a computer for business, compared to $785 by the typical person who uses a home computer recreationally. Similarly, the study revealed expenditures on supplies and peripherals averaged $289 for the home-office worker and $166 for the recreational/educational home computer user.

Almost half of all respondents said they usually return to a similar type of outlet when buying computer media.

Floppy disks were purchased at retail outlets by 75 percent of the respondents. This group included 54 percent who purchase accessories from specialty stores like computer, software or office supply stores, and 46 percent who favor mass merchandise outlets such as discount, department and drug stores.

In addition, the survey revealed that home computer users often return to the same type of outlet to purchase floppy disks. Almost half of all respondents said they usually return to a similar type of outlet when buying computer media, and almost three-fourths said they buy from three types of outlets or less. Only 14 percent expressed little or no preference on where they purchase computer software and accessories.

The survey held a message for retailers who can better reach the home computer market and increase profits by providing product availability, value, and high-quality products to their customers. With more than one-third of the U. S. labor force working at home, this new segment of the market represents a significant opportunity for retailers.

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FM

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

Fall 1988

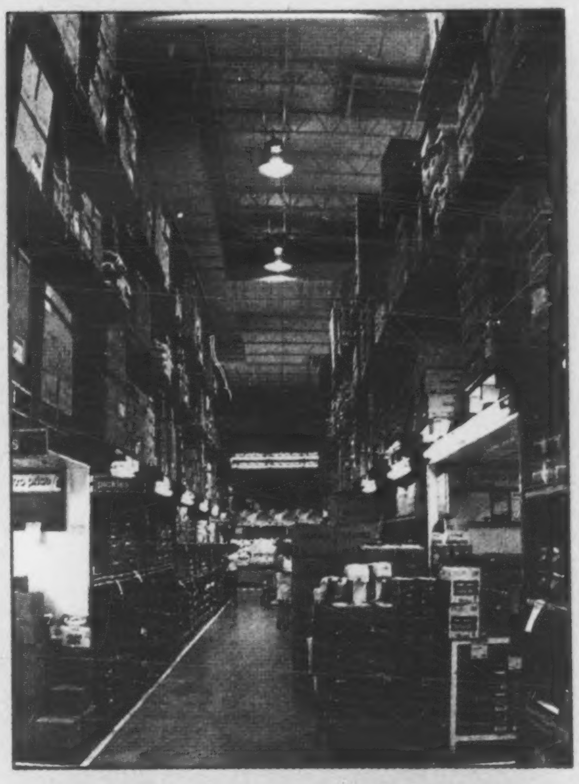
Profile; Pet Care Sales-Page 37

First Annual Non-Food Retail Grocery:

Quantifying How Non-Food Treats Groceries; Average margins, turns, % of total store sales, etc., for snacks, pet foods, household cleaners & beverages

Features

FM Special Report: How Retailers Handle Groceries in Non Food Stores



Special industry survey pinpoints how many chains carry grocery items like packaged groceries, candies, snacks, cleaners, pet foods and beverages and why chains stock them. Also, we have exclusive data on how much space each grocery category gets in the average nonfood store as well as each segment's average margins and average turns.

Alcoholic Beverages: Coolers and California Wines Stand Out in Flat Category

307422
ANDRE' PINK
CHAMPAGNE 750ML
$2.29

Growth segments in the alcohol category, plus the strategies drug and discount chains are using to merchandise alcohol today.

Pet Care: Non Food Chains Have a New, More Aggressive Approach to Pet Care Sales

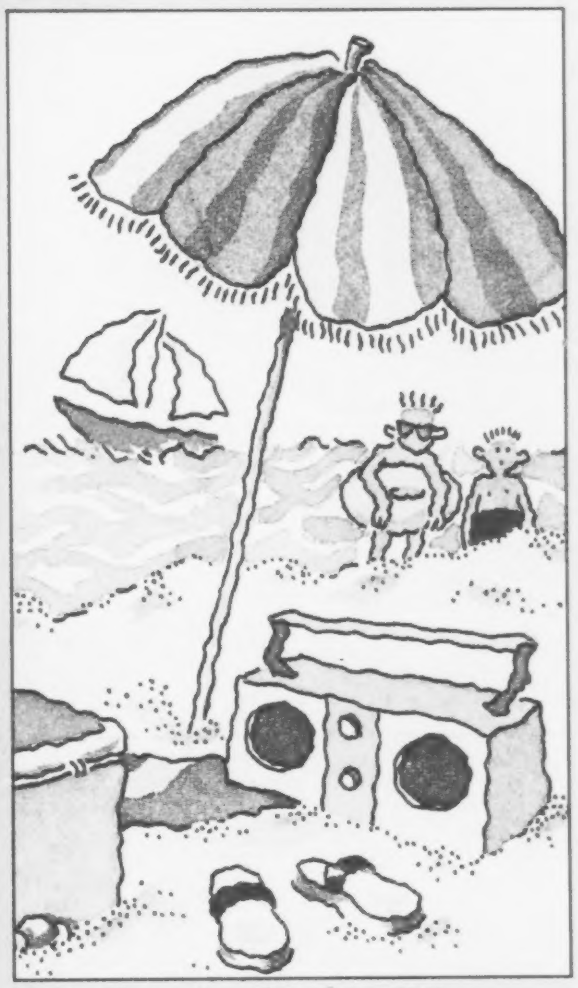
More chains today are putting in or expanding their pet care departments. Buyers say the addition of pet foods to their stores attracts more traffic to their high margin pet accessory departments.

Departments

Food For Thought

Last summer's dog days made beverages this year's hottest grocery category.

Sami: Category Seasonality Report



Best selling categories of summer

Food Merchandising for Non Food Retailers

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Long Hot Summer Sparks Beverage Sales In Non Food Store: Gatorade was "Outstanding"

Elizabeth Parks

It's been a long hot summer, and in some chains, sales suffered because people didn't want to stir, let alone shop.

But at least nonfood retailers report there was one bright spot in the almost constant 90 degree weather: beverages.

According to most buyers for nonfood chains, all beverages did well this past season, but some beverages, in the words of many buyers, were "outstanding."

Just about every buyer Fm talked to in August reported that their sales of Gatorade were "phenomenal" this past season.

Buyers say all their flavors are selling well this year, but their two newest flavors, Citrus Cooler and Lemonade, are doing phenomenally well.

"Gatorade had a great year with us last year, but this year it's even stronger," said one buyer for a mid-west drug chain. "It's incredible. It seems like everyone who steps outdoors has been drinking it. It's partly because it's the only brand in its category. It has about a 98% market share, but you also can't turn on a sporting event anywhere without seeing some athlete drinking Gatorade."

A new juice/bottled water drink, Stroh's Sun Dance, also sold well this past quarter, helped by an aggressive advertising campaign from Stroh's, and by the fact that many nonfood chains jumped on Sun Dance, almost from its first launch day.

According to brokers who handle Sun Dance, Stroh's did something very unusual for a manufacturer launching a new grocery item: they introduced it to the nonfood trade at the same time they introduced it to the food trade and many nonfood chains were actually quicker than the food chains to promote and feature Sun Dance.

According to the sales reps who sell Sun Dance into the stores, about 25% to 30% of Sun Dance's volume right now is coming through the nonfood trade.

Nonfood chains usually like to work on ads six to eight months down the line, but sources say that Wal-Mart took two weeks from the time their buyers first saw the Sun Dance presentation to the time they ordered the item.

"Their management saw the advertising Stroh's was putting behind it. They liked the uniqueness of the product, and they just turned on a dime. They dropped other items they had planned to promote and they just made space for it. It's been one of their hottest items this year," said a well placed source.

In Washington, D.C., the People's operated chain of Bud's Discount Drug stores had a mid-summer massive display of Sun Dance in the back of their stores next to Coke and Pepsi.

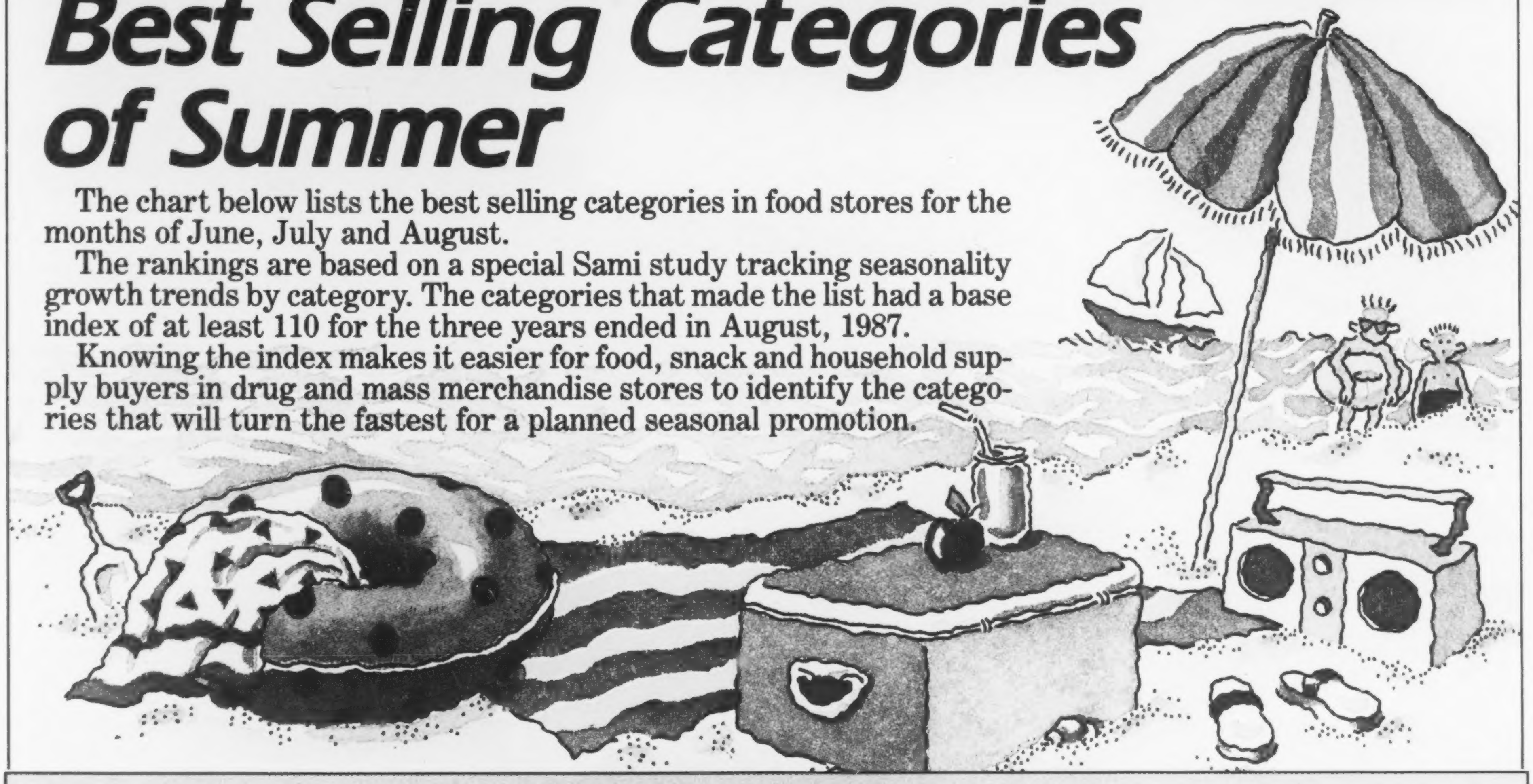
At a time when the food chains were primarily selling the beverage at a full mark-up with retails averaging about $2.99, Bud's set up bulk displays and promoted the item at $1.99. One store actually had 100 cases on display one week-end.

Best Selling Categories of Summer

The chart below lists the best selling categories in food stores for the months of June, July and August.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in August, 1987.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.



Foods and Groceries: Best Sellers of Summer

(Average three year index ranking)

June		July		August	
Foods	**Index Ranking**	**Foods**	**Index Ranking**	**Foods**	**Index Ranking**
Fruit Pectin	260	Fruit Pectin	268	Freezer bars	185
Freezer bars	231	Freezer bars	227	Vinegar/cooking wines	169
Barbecue sauce	152	Vinegar/cooking wines	162	Fruit Pectin	164
Canned prepared salads	149	Canned prepared salads	153	Iced tea mix/liquids	141
Iced tea mix/liquids	144	Iced tea mix & liquids	152	Soft drink mixes	122
Relishes	143	Barbecue sauce	148	Reg soft drinks	122
Pork & Beans	135	Relishes	145	Bottled water	122
Instant tea	127	Beans/Pork & Beans	136	Lemon/lime juices	117
Soft drink mixes	126	Soft drink mixes	135	Instant tea	116
Reg soft drinks	121	Reg soft drinks	131	Baking powder/soda	116
Mustard	120	Instant tea	126	Potatoe chips	115
Lo-cal salad dressing	119	Lemon/lime juices	123	Lo-cal soft drinks	115
Pourable salad dressings	119	Mustard	121	Granulated sugar	115
Meat sauce	118	Canned shrimp	121	Canned salads	113
Lemon/lime juices	118	Potatoe chips	121	Canned tuna	112
Juices/Juice Concentrates	118	Cocktail mixes, dry & bottled	121	Cocktail mixes, dry & bottled	112
Canned meat spreads	118	Spoonable salad dressings	118	Packaged gum	111
Canned sausages/franks	118	Pourable salad dressings	118	Packaged tea	111
MSG/Meat Tenderizers	118	Meat sauce	118		
Nonfoods					
Insect repellents	258	Insect repellents	249	Insect repellents	160
Charcoal	202	Charcoal	201	Charcoal	132
Charcoal lighter	184	Charcoal lighter	183	Insecticides	130
Insecticides	140	Insecticides	138	Soil/stain removers	124
Car care products	135	Plastic flatware	136	Charcoal lighter	120
Plastic flatware	131	Car care products	135	Food storage bags	120
Paper/plastic plates	122	Paper/plastic plates	127	Car care products	118
Paper/plastic cups	118	Soil/stain removers	124	Bleach	116
Soil/stain removers	118	Paper/plastic plates	123	Upholstery cleaners	115
Bleach	113	Disinfectants	113	Rug cleaners	114
Window cleaners	112	Bleach	113	Mildew removers	112
Soaps-hand & bath	112	Tampons	113	Window cleaners	110

Source: Sami Seasonality Report

FM Special Report: How Nonfood Chains Market Groceries

What's New In Grocery Merchandising

The search is on for more exciting new products. Nonfood chains are becoming more willing to take chances on new items, and buyers say one benefit is they can usually take longer margins.

Buyers are looking to expand their grocery assortments. They want more variety and new items.

Nonfood chains seem to be getting more daring with the types of groceries they're willing to promote, and sources are also reporting they have less of an inclination to low ball groceries or to advertise at cost.

Many buyers tell Fm that they are asking their brokers and venders for earlier information on upcoming new products.

The food buyer for a mid-west drug chain said she doesn't want to wait two years to promote something "new and hot that the grocery chains have introduced."

"It used to be," she said, "that I'd want to be 100% sure of an item's tonnage potential before I'd promote it. That meant I'd go with proven winners like a Star Kist Tuna or a Smuckers grape jelly.

"But now we've had a lot of success with food and I'd like to be quicker to offer my customers some of the hot new things, like a Sundance or an asceptic pack at a good price.

How Grocery Sales Break Out

	Drug	Discount
Segment	(% of total company sales)	
Cleaners & other non-edible groceries	8.5%	11.5%
Edible packaged groceries (excluding candies & snacks)	7.6	10.3
Candies & snacks	10.9	6.6

Source: Lebhar Friedman Research

"As long as the manufacturer is going to support their brand with major advertising, I know it will sell, and I'd like to have a chance to feature some new things if I could just hear about them early enough."

Trend is to low ball groceries as little as possible

Many buyers also say they don't have to be as competitive with some of the new items because the food chains haven't started to low ball it yet. As one source puts it, "that gives us a chance to offer the consumer something very attractive at a good price, but at a price where we can still make money. On some of the new items I've looked at, I can make 20% to 25% when I advertise it from a deal."

Buyers say it still depends on

Seagram's
GINGER ALE
Gatorade
Nips
BETTER CHEDDARS
Thin Mints
PREMIUM
RITZ

Most nonfood chains try to stock brand names in their grocery departments. Buyers say they need to stock the items that people want.

How Groceries Perform in the Nonfood World				
Grocery segment	Everyday Margins Drug	Everyday Margins Discount	Annual Turns Drug	Annual Turns Discount
Candy/gum	26.7%	23.0%	17.0	17.0
Paper Products (facial tissues, etc.)	17.6	15.1	15.7	17.5
Household cleaning supplies	19.2	15.3	9.1	16.5
Chips/snacks	25.1	20.0	16.6	23.6
Non-alcoholic beverages	20.9	14.9	15.7	27.1
Pet foods & accessories	25.1	23.5	6.4	18.3
Packaged/canned dry groceries	22.0	19.7	7.1	23.1
Beer/wine other alcoholic beverages	24.0	13.5	7.3	21.3

Source: Lebhar Friedman Research

the region, but whenever possible they are trying to take longer margins on foods and non-edible groceries.

"If I'm in a very competitive market and I have to worry about building volume for my stores, then I'll go out at cost on the high consumption grocery categories," said a buyer for a major discount chain.

A Zayre's manager said that their philosophy is to go out at cost "only when you have to, only when you really want to make a statement and you are advertising a very competitive item like soft drinks."

But he added that he felt consumers don't mind paying another ten cents or so for the convenience of making the purchase "while they're in my store. People ask us for soft drinks," he said, "they ask for juices, they ask about cleaners and pet foods and groceries. If they pay 10 or 20 cents more, they don't seem to mind because of the convenience. However if we were 30 or 40 cents higher than food stores, I think it'd hurt us. We'd lose the sale and we'd get a bad image. So the trick is to make money but don't be perceived as high priced."

Buyers are searching out hot new winners

This year buyers say their brokers are introducing them to more new products earlier in the cycle, sometimes even before the brand has had a chance to take off in food stores.

How Drugstores Compare to Discount Stores On Food Merchandising		
Grocery segment	% of nonfood retailers carrying lines · Drug Everyday	% of nonfood retailers carrying lines · Discount Everyday
Candy/gum	93%	100%
Paper Product (facial & toilet tissues, etc.)	90	100
Household cleaning supplies	93	97
Chips/snacks	83	97
Non-alcoholic beverages	70	87
Pet foods & accessories	67	87
Packaged & canned dry groceries	37	50
Beer, wine and/or other alcoholic beverages	47	27

Source: Lebhar Friedman Research

Venture was buying Sundance on promotion just as it was starting to sweep the nation back in the spring of this year, and many of the wholesale clubs like Sam's and Price Saver had it even earlier.

A source for Wal-Mart says that when they hear about a new product from a vendor or broker, they go into the food stores to see how the food chains are treating the brand or the category.

If the food chains are giving it a lot of floor space and if the manufacturer is supporting it, the source said their tendency is to buy it in conservative quantities and see how it sells.

If it sells well, the buyers reorder while it's still on deal, and if it really sells well, then it goes into the planogram for everyday merchandising.

Many of the nonfood chains are taking this approach with the microwave category. Some sources even say nonfood chains do a better job with microwavable foods than food chains do.

All the major nonfood chains have had great success with microwave popcorn and with the Pillsbury microwavable cake mixes. Now many are starting to promote a cold pack microwavable cheese food made by the Kaukana Co. in Wisconsin.

Drug Emporium and Gibson stores have tried it and sources report good sell throughs. The item comes in a shelf stable cup and it has an everyday retail of between $1.79 and $1.99.

Other buyers are taking about testing a new microwavable toaster pastry that Mericco Co., a division of Anheiser Busch, had developed.

Deep discount drug stores promote groceries aggressively. Displays are massive and designed to generate impulse sales.

Several sources are also talking to Safeway foods about merchandising some of their private label brands including the Busy Baker which one source says has a very strong following in certain regional markets.

% of Print Advertising Budget Spent on Grocery Product Ads

Grocery segment	Drug	Discount
Candy/gum	3.7%	2.3%
Paper Products (facial tissues, etc.)	5.2	5.1
Household cleaning supplies	3.3	5.1
Chips/snacks	4.4	2.4
Non-alcoholic beverages	5.7	4.8
Pet foods & accessories	1.9	3.2
Packaged/ canned dry groceries	1.5	13.0
Beer/wine other alcoholic beverages	7.6	2.5

Source: Lebhar Friedman Research

How Space Is Allotted Everyday Groceries
(% of department space allocated in average store)

Grocery segment	Drug	Discount
Candy/gum	6.7%	4.2%
Paper Products (facial tissues, etc.)	7.0	4.8
Household cleaning supplies	5.7	6.5
Chips/snacks	5.1	4.9
Non-alcoholic beverages	5.4	5.5
Pet foods & accessories	4.1	6.3
Packaged/canned dry groceries	7.2	5.7
Beer/wine other alcoholic beverages	11.6	4.2

Source: Lebhar Friedman Research

Wal-Mart earlier this year was very successful with the Eight O'Clock A&P private label. They didn't advertise it often, but they kept the single serve pacquettes in their sidekick merchandising program for months, and managers say sales were excellent.

Buyers and brokers also say they expect to do very well with a new snack pack that Smuckers is bringing out. The pack contains preserves plus crackers and several brokers say it is a "natural for the nonfood trade."

"It's a great snacking item. It's convenient. It's a good brand name, and there's nothing else like it out there right now. It should go over very well," said one discount chain food buyer.

Also buyers say they are very excited about Quaker's new asceptic pack for Gatorade and Motts new multi-fruit flavored applesauce six pack.

At press time, Target, K mart and Wal-Mart were all reviewing these lines, and several sources said they expected to promote them "as soon as possible."

"I'm also looking for a new type of snack to promote," said one buyer, "and these kinds of things are perfect. They're appealing to consumers. They're quality brands and until the food stores start going crazy with them, I can advertise them and make about a 20% margin. Everyday, I can sell them and take about a 30% margin.

"I can always get turns with snacks, but with these kinds of items, I can make money too."

Many warehouse club stores sell beer, wine and alcohol. Buyers say the category presents "opportunities."

Liquor Sales Continue Flat

Coolers are still experiencing moderate growth, but beer, wine and hard liquor, in both sales and consumption, are all flat or down. Consumers, in a moderate mood, are seeking healthier beverages.

Alcoholic beverage sales remained slow in 1988. Wine and the darker liquors like scotch, bourbon and rye continued to experience consumption declines and flat sales.

White spirits enjoyed somewhat better growth, but nothing that can be described as dramatic.

According to buyers and industry experts, diet or health positioned drinks including light beverages were still in this year, and flavors such as peach, raspberry and coconut, were still popular.

But generally in 1987 and continuing through 1988, the story is that individual brands managed to generate growth, but, with a few exceptions, most categories did not.

According to Impact, one of the beverage industry's leading publications, alcoholic beverages, in 1987, lagged behind other beverage segments in total dollar growth.

Beer Tonnage Sales Trends (millions of 31 gallon barrels)

Segment	1986	1987	% chng
Premium	43.0	41.5	(3.4%)
Light	22.1	24.0	8.6%
Popular	24.0	23.7	(1.3%)
Imported	4.7	5.1	8.5%
Super Premiums	2.9	3.2	10.3%
Malt liquors	2.8	3.0	(6.7%)

Source: Beverage Industry Magazine

Impact says in 1987, alcoholic beverages posted a modest 1.5% increase in retail sales to $54.9 billion. In 1987, Impact reports that sales for the total beverage industry were up 2.3% to $125.4 billion.

Impact also reports that alcohol's share of total beverage sales is also dramatically down. In 1975, alcoholic beverages had a 50% share of sales. Last year, Impact says their share was just 43.8%.

In 1987, beer posted a modest 1.8% gain to $30.2 billion at retail. Wine was flat with $7.2 billion in sales. Spirits were also flat with $15.7 billion in sales.

Retail sales for coolers, however, soared 19.2% to $1.8 billion. The only other beverage category to experience such strong growth was bottled water, up 12.5% to $900 million in retail sales.

Impact records that alcoholic

beverages are continuing to decline in popularity. Total alcoholic beverages rang up a 43.8% share of retail sales in 1987. But, in contrast, they commanded a 54% share in 1970, and they had a 44.1% share in 1986.

Beer continues to be the dominant alcoholic beverage of choice for most Americans. Beer had a 24.1% share of retail sales in 1987, compared to 24.2% in '86 and 23.5% in 1970.

Wine had a 5.7% share last year, down 0.2 points from 1986 and up from 5.1% in 1970. Spirit had a 12.5% share last year, down 0.3 points from 1986 and down from a high of 25.1% in 1970.

Coolers, which had less than a 0.05% share in 1980, had a 1.4% share in 1987, up 0.2 points from 1986.

U.S. Alcohol Beverage Consumption: Share of Total Market

Category	1970	1986	1987
Beer	85.3%	84.9%	85.0%
Wine	6.0	6.8	6.7
Distilled Spirits	8.7	5.8	5.7
All Coolers	n.a.	2.4	2.5
All Alcoholic Beverages	100%	100%	100%

Source: Impact Databank

1987 Comparison of Alcoholic Beverages by Category (gallons vs. retail sales)

	Gallons	Retail Sales
Coolers	2.5%	3.3%
Distilled Spirits	5.7	28.6
Wine	6.7	13.1
Beer	85.0	55.0

Source: Impact Databank

In 1987, only one segment of the alcoholic beverage category, coolers, turned in any significant consumption gains.

Before the start of this decade, Impact reports that alcoholic beverages had consistently outperformed the beverage market as a whole on consumption growth.

But since 1980 on, the "national mood of moderation," coupled with legislation raising state drinking ages and imposing new taxes and stiffer laws against drunk driving, have "hobbled" the growth of alcoholic beverages with the one exception of coolers.

Impact says that in 1987, alcoholic beverage consumption was down 0.2% in 1987 to just 6.8 billion gallons consumed, and their share of beverage volume was also down 0.2 points to 15%.

Impact also records that three of the four alcoholic beverage categories they track turned in consumption losses last year. Beer was down 0.1%, wine was down 1.8% and distilled spirits were down 1.9%.

Coolers did continue to grow, up 6.1% to 173 million gallons. But even in this segment, the picture was not as bright as retailers and manufacturers would like it to be.

Most sources agreed that the 6% growth was good in a down category, but it's also obvious that coolers are reaching their maturity or saturation point. In 1986, for example, consumption for the category was up a whopping 66.3%. It's fairly clear the coolers will not be attracting many more new users. The category's reached its maturity.

1987 Comparison of Alcoholic Vs. Non Alcoholic Beverages (gallons vs. retail sales)

	Gallons	Retail Sales
Alcohol	19.3%	43.8%
Non Alcohol	80.7	56.2

Source: Impact Databank

U.S. Beverage Consumption Trends (millions of gallons)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	5,794	5,788	(0.1%)	0.5%
Wine	466	457	(1.8)	0.6
Distilled Spirits	398	390	(1.9)	(1.2)
All Coolers	163	173	6.1	n.a.
All Alcoholic Beverages	6,821	6,808	(0.2)	0.7
Soft Drinks	11,640	12,060	3.6	3.9
Coffee	5,700	5,755	1.0	(0.1)
Milk	5,057	5,071	0.3	0.2
Fruit Juice/Drinks	2,547	2,558	0.4	2.1
Tea	1,500	1,435	(4.3)	(0.6)
All Water	11,180	11,175	0	(0.1)
Other +	545	550	0.9	0.6
All Non-Alcoholic Beverages	38,169	38,604	1.1	1.2
All Beverage Consumption	44,990	45,412	0.9	1.1

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.

Source: Impact Databank

Bright Spot in Beverage Consumption

Impact magazine, a leading beverage industry publication, believes that total per capita beverage consumption is destined to rise over time.

Impact bases its theory partly on the fact that The Physician's Handbook has reported that daily liquid consumption increases as people grow older.

The Physician's Handbook reports that infants require 11 to 33 liquid ounces daily; children require 33 to 60 ounces daily, and adults require 60 to 83 ounces daily.

Impact says the fact that the U.S. adult population is growing, combined with the availability of a much broader selection of beverages and with increased purchasing power, should promote total per-capita consumption growth.

WINE
beer
SODA
Pretzels
NUTS
CHIPS
Crackers

Liquor buyers say moderately priced California wines are among this year's best sellers.

Coolers and California Wines Are '88's Best Sellers

Retailers report their best liquor sellers are coolers, California wines and light and imported beers Buyers say coolers are the "brightest spot" this year in the liquor category, and they say the best promotions feature "price and assortment"

Except for coolers, the liquor category is virtually flat in today's market place. Retailers who do stock liquor report there are no bright spots in the category right now.

Most say coolers are continuing to sell well, although no one is seeing anything like the growth surges of 1985 and 1986. Most sources say the fruit flavored wines and coolers are selling the best, and a few sources are seeing a surge of sales in the premium or better California wines, especially for chardonnays, white zins, and cabernets.

Jug wines are also selling well, although no one reports any dramatic growth, just "a good steady business."

Imported and light beers are still doing well, but the growth of the Mexican beers is starting to peak in some markets.

This year, buyers say their strongest merchandising tool is price. Buyers say they are careful to buy at the lowest possible acquisition costs, because their sell throughs depend on the value they can offer the consumer.

Few chains report that they are expanding space for liquor in 1988, and most say they are continuing to carry a good assortment "to give shoppers a good selection" and they're continuing to advertise liquor to make it visible to their shoppers.

The biggest new items this year, most buyers say, are the new flavors that the cooler manufacturers are introducing. Seagrams, Bartles and James and Gallo, in particular, are introducing line extensions that most buyers say are selling well.

U.S. Alcohol Beverage Consumption Trends (gallons per person)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	24.03	23.78	(1.0%)	(0.5%)
Wine	1.93	1.88	(2.9)	(0.4)
Distilled Spirits	1.65	1.60	(2.9)	(2.2)
All Coolers	0.68	0.71	5.1	0.05
All Alcoholic Beverages	28.29	27.97	(1.1)	(0.3)

Source: Impact Databank

"The wine cooler category is certainly not as hot as it once was," says a source for a southwest-based drug chain, "but by introducing new flavors, they're helping to build the business."

Several sources report that their movement on the Bartles and James red coolers "is dead." However, B & J is extending into berries and into tropical flavors that buyers say look like they will do well.

Seagrams has about seven flavors out now, and their variety, in combination with their aggressive ads, are helping sales tremendously. Most buyers say the Seagrams coolers are among their best sellers.

Several buyers are starting to report stronger sales of their California varietals, and they say this is because many California manufacturers are starting to get behind these wines now to promote them as alternatives for German and French wines that are going up again in price.

"I think they're starting to cut into my market for German wines," said one source. "About three years ago, my customers were paying about $4 for a bottle of German or French wine. Now it's up to $7."

Buyers say the Italian wine market still belongs predominantly to Riunite, but they say Riunite's growth overall is still flat. Many buyers report that their Riunite sales are about where they were a year ago. The peach flavored Riunite is still selling well, and some sources say that is what is still keeping the brand strong.

Among the California wines, many sources say that Sebastini has had a resurgence, and is selling very well now. "For some years, it was a dead horse," said one buyer, "but now it's doing very well for me."

Sutter Home is selling well, especially its White Zinfandel. White Zins and the blush wines, in fact, are doing much better this year.

Jug wines are still selling okay, especially Gallo and Inglenook. However, retailers are trying to push their customers up to the $4 and $5 California premium wines.

Some chains are even putting in small four ft. sections for the California varietals, and buyers say they plan to advertise them more.

U.S. Beverage Retail Sales (billions of dollars)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	$ 29.7	$ 30.2	1.8%	6.6%
Wine	7.2	7.2	0	3.4
Distilled Spirits	15.7	15.7	0	2.4
All Coolers	1.5	1.8	19.2	n.a.
All Alcoholic Beverages	54.1	54.9	1.5	5.3
Soft Drinks	36.7	38.7	5.6	9.5
Coffee	6.0	5.3	(11.5)	(1.5)
Milk	11.5	11.8	2.0	2.6
Fruit Juice/Drinks	11.2	11.6	3.4	12.4
Tea	1.4	1.3	(5.4)	6.4
Bottled Water	0.8	0.9	12.5	15.0
Other +	0.9	0.9	(0.3)	4.5
All Non-Alcoholic Beverages	68.5	70.5	2.9	7.4
All Beverage Consumption	122.6	125.4	2.3	7.4

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.
Source: Impact Databank

U.S. Beverage Retail Sales: Share of Total Market

Category	1970	1986	1987
Beer	23.5%	24.2%	24.1%
Wine	5.1	5.9	5.7
Distilled Spirits	25.1	12.8	12.5
All Coolers	n.a.	1.2	1.4
All Alcoholic Beverages	54.0	44.1	43.8
Soft Drinks	17.1	29.9	30.9
Coffee	4.8	4.9	4.2
Milk	16.3	9.4	9.4
Fruit Juice/Drinks	5.9	9.1	9.2
Tea	0.8	1.1	1.0
Bottled Water	n.a.	0.7	0.7
Other +	0.5	0.7	0.7
All Non-Alcoholic Beverages	46.0	55.9	56.2
All Beverage Consumption	100%	100%	100%

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.
Addition of columns may not agree because of rounding
Source: Impact Databank

In some parts of the country, buyers report a surge in low end imports like the Yugoslavian wines, the cheaper Cote du Rhones from France and some of the low end German wines.

Several chains report success promoting these wines as "Specials from the Wines of the World." In some cases, they have advertised them for as low as three bottles for $7.

"The deal is basically put together by my wholesaler," says one source in the west. "He gets the manufacturer to come out at a good price and he'll offer me a good package of maybe one Yugoslavian wine, a German wine and a French

Imported beers and light beers stand out in a flat category. Coors, Heineken and Corona are selling well.

Outlook For Tomorrow's Alcohol Market

What will be the nation's strongest selling beverages from now through the 1990's?

In its 1988 Review and Forecast edition of Beverage Trends in America, Impact magazine signals out soft drinks, coolers and fruit juice/drinks as the growth areas for beverages from now through the year 2000.

Impact predicts that the overall beverage market will expand 1.4% a year through 1990, reaching 47.8 billion gallons in 1995 and 51.5 gallons by 2000.

By 1990, Impact expects that alcoholic beverage volume will be winnowed down to just over 6.7 billion gallons, where Impact thinks the market will remain through the year 2000 and beyond.

Their market experts feel that alcohol's share of beverage consumption will dwindle from 14.1% in 1990 to 13% in 2000.

Impact says that beer volume will probably erode at a modest but steady pace over the coming years, slipping to just over 6.7 billion gallons by 1990, and to below 5.6 billion by 2000.

Impact thinks wine will dip to about 445 gallons by 1990, but should recover to maybe 459 million gallons by 2000.

Spirit consumption will probably slide more dramatically, going down to about 385 million gallons by 1990 and to 357 million by 2000.

Coolers, which were at 187 million gallons in 1987, could climb as high as 316 million gallons by 2000. By the turn of the century, Impact thinks coolers may account for 4.3% of all alcoholic consumption. They account for 0.4% now.

wine. At $7 for three bottles, I don't make much money, but I can draw traffic and I can get more customers into the department."

In beer, the best selling brands still depend on the region of the country. In the mid-west, Mexican beers are still selling well, but in the south, some buyers report a slow down. Corona is still strong, but not as hot as it was last year at this time. Heineken is still doing well, but not spectacular. The best selling American beer is still Bud and Bud light. The light beers are still strong.

Some buyers say they would like to try the "copy cat" Mexican brands coming out as well as the newer, exotic beers like Jamaican beer, but most say they can't get the price points down low enough to make the assortments attractive in their stores or for their customer base.

"If I have to sell Jamaican beer at $21 a case, I don't want it," said one source.

In imports right now, many buyers say their fastest growing brand is Coors.

Very few chains could report any particularly strong promotions this year. Most buyers said the only thing that sells alcohol right now is price.

Brown goods are continuing to decline. The best selling brands are often dependent on regional preferences, but Jack Daniels is often named as a bestseller, so are Johnny Walker, Seagrams Vo, Crown Royal and Dewar's.

Many buyers say their small size liquors were doing the bulk of the volume this year, one source said his small sizes outside the bigger sizes "five to one," but the 1.75-oz. bottles were still popular in ads, especially for some of the bigger chains like Walgreens and K mart.

Non Foods New Approach To Pet Care

Many chains are setting up permanent pet food departments. Foods lure customers & create the environment for sales of higher margin accessories

Credit line: Photo by Ray Garland

Drug and discount chains are catering to pet lovers by adding or expanding pet care departments.

After years of promoting pet foods as a traffic builder, drug and discount chains are beginning to give the category more attention as a permanent everyday department.

- Zayre's, which is headquartered in Boston, has made pet foods a permanent department in all stores;
- Jack Eckerd is rolling out permanent departments in almost all of its drug stores;
- Rich's Department stores is putting in a permanent pet food set this year;
- K mart is testing a permanent department in about 100 stores;
- S.E. Nichols is testing the section in a handful of stores and is reportedly set to roll it out shortly;

Fay's Drug is testing a permanent set;

Caldor is poised to launch a test; and Drug Emporium is in the process of rolling out 12 to 16 ft. departments to almost all its stores, both company and franchised.

% Pet Food Sales by Category Segment

Segment	% share of Dollar Sales
Dog Food Dry	32.0%
Dog Food Wet	16.0
Dog Food Snacks	7.0
Dog Food Semi-Moist	3.0
Cat Food Wet	21.0
Cat Food Dry	14.0
Cat Food Semi-Moist	4.0
Cat Food Snacks	0.5
Miscellaneous (bird food, gerbil & hamster food, etc.)	2.5

+ Food store retail sales only, for period ended in January.
Sami Dry Grocery Food Category Trends

Buyers tell Fm they're attracted to pet foods because of the category's dollar volume. According to Sami, in food stores alone, pet foods generate nearly $6 billion a year in retail sales.

Many buyers also say they see a way to maximize sales in higher margin accessory departments by having pet foods in their stores as a customer draw.

A source for Zayre's said they feel they may be able to increase their high margin pet accessory sales "two or three times what they have been" by having pet foods in their stores, near accessories.

Several sources said that as a nearly $6 billion dollar category, pet foods are "big business" and that it therefore makes sense for retailers who carry other tonnage categories like candy, snacks and soft drinks to stock pet foods as well.

"A category that big is going to do well on promotion and everyday too," said one buyer for a major discount chain.

"Right now," said the Zayre's source, "we make about 60% average gross margins just on pet accessories. Everyday, we make between 20% and 30% on the foods, but since we put the foods in last year, our pet accessory sales have gone up over 50%.

"In the end, it could be possible that we'll triple or even quadruple our accessory business just because of the tie in to the foods."

Many of the nonfood chains are also putting the department in the back of their stores near higher margin general merchandise. Many discount stores locate the department near auto supplies and lawn and garden, while drug chains have it close to auto supplies or household gadgets and housewares.

In discount stores the average department runs from about 16 ft. to as much as 60 ft., but 20 to 40 ft. is more typical. The size depends on the store and whether or not it is in a neighborhood with what retailers call "a high pet index."

In Zayre's case, their new pet food section ranges from 20 to 40 ft. and it is partnered with a free standing floor display of Hartz pet accessories.

The department stocks most of the major brands including selections from Ralston Purina, which makes Dog Chow, Puppy Chow, Chuck Wagon, Meow Mix, Tender Vittles, Cat Chow and Kitten Chow; Star Kist, which makes 9 Lives, Quaker Oats, which makes Gravy Train and Gainesburgers, and Carnation which makes Friskies, Fancy Feast, Mighty Dog, Chefs Blend and Come & Get It, etc.

Several manufacturers whose brands are in the department say their sales are up more than 80% over last year, but that is also due to the fact that the department is new and that Zayre is getting business it never had everyday before.

The chain has always aggressively promoted pet foods, however, and they are continuing their promotions to make consumers aware that they carry the pet food lines everyday.

They also use banners over the department to catch the attention of in-store shoppers.

Caldor has not been as aggressive with pet foods, but sources for the chain said they are going to test pet foods this year, either promotionally or everyday or possibly both.

One source said they even had the planogram worked out. It will be for 8 to 12 ft. sections and it will stock about 60% cat food versus 40% dog.

Rich's has also started promoting pet foods, and the 30 store chain is going to be testing 16 ft. pet food departments starting this fall. One source said the chain will initially put the departments into about a third of its stores and if they are successful, they will roll out chainwide very quickly.

Most buyers say they think most

Pet Food: Brand Share of Dollar Sales

Brand	1984	1985	1986	1987
Ralston Purina	27.0%	26.7%	27.3%	28.7%
Friskies	11.9	12.1	12.0	12.4
Quaker Oats	7.1	7.1	13.1	11.1
Heinz	7.4	7.8	8.3	102
Kal Kan	8.7	8.4	9.3	9.4
Alpo	6.2	7.1	7.1	6.3
Gaines	6.8	6.6	*	*
All Others	24.9	24.3	23.0	22.0

*not available
Source: Maxwell Report

What's Hot In Pet Accessories

This year, discount stores are making more space for pet accessories in their aisles.

Buyers say that their pet accessory sales have been increasing at rates ranging from 20% to 50%.

Conventional pet accessories like feeding bowls, brushes, shampoos, flea powder products and toys are strong in almost all types of nonfood stores, including drug chains.

But the discount chains like K mart, Wal-Mart, Target, Venture and Gold Circle are also doing very well with larger accessory products like cat litter boxes with hoods and portable pet carriers.

According to A&B marketing, a Cleveland-based broker that sells to most of the major nonfood chains, Pet Taxis, made by Doskocil in Arlington, Tex., is still selling well in discount stores, especially the smaller sizes that retail anywhere from $10.99 on sale to about $16.99 everyday.

This year, Doskocil is introducing a new improved model in a pastel blue shade and buyers say it should be "fantastic." The price is the same but the cage now has a double locked door, and a small compartment on top for treats or medicine.

Several discount store buyers say they are also thinking of expanding their assortment of cat and dog food and water bowls. Doskocil is also coming out with the industry's first full line assortment of bowls in a variety of types, sizes and shapes, and buyers say the line, called Pet Mate, may be just what they need to round out their accessory program.

"It's the first time I'll be able to tie in litter pan purchases with a full pet bowl line," said one buyer. "It's convenient and I think it might do well in our stores."

This Christmas, many chains are also planning to advertise what A&B's Gene Ambrose called "the hottest new item in the category: mini-acquariums."

Also known as desk acquariums, the mini's come in self-contained one and two gallon sizes and buyers say they are really in demand this year.

"People are buying them as decorations for the house," said Ambrose. "You see them all over, in department stores as well as stationery stores. They're in right now."

The mini's are made by several manufacturers, but several buyers singled out a company called Hawkeye in Gardner, Kan., for making a particularly good line.

Wal-Mart now carries the mini everyday, and sources said they will probably promote them this Christmas. Fisher Big Wheel, Target, Thrift Drug and Gold Circle also have them, and some sources for these chains said they will also probably promote them for Christmas.

of their sales will be promotional at first. "We're looking to draw traffic for us, especially in the beginning," several said.

One buyer said that research shows that over half the people who shop discount stores have pets and so the category "is a natural for impulse sales."

Most sources also said they expect their volume will build slowly at first, but in a steady way. "Wal-Mart right now is getting about 20 turns a year from this category, so we think we can get our turns up to 8 or 10 a year and then maybe peak at about 15 to 17," one buyer said.

In chain drugstores, buyers are estimating they can get seven to 10 turns a year from pet food. Their departments, of course, are much smaller than the departments in discount stores, and they also generate less foot traffic.

Trends in Pet Food Sales
(Food store retail sales in millions)

Segment	1982	1987	1989	% chng. '88 vs. '87
Dog Food Dry	$1,597.9	$1,753.3	$1,742.0	(0.6%)
Dog Food Wet	814.5	827.9	850.5	2.7
Dog Food Snacks	250.6	340.0	373.5	9.8
Dog Food Semi-Moist	269.0	199.6	182.3	(8.7)
Cat Food Wet	825.9	1,119.3	1,162.3	3.8
Cat Food Dry	582.5	769.4	752.9	(2.1)
Cat Food Semi-Moist	204.0	244.8	223.0	(8.9)
Cat Food Snacks	n.a.	21.2	26.3	24.0
Miscellaneous (bird food, gerbil & hamster food, etc.)	85.5	122.7	135.5	10.0
Total	**$4,629.9**	**$5,376.9**	**$5,448.3**	**1.3%**

†Food store retail sales only, for period ended in January.

The drug chains are also a little more mixed in their reaction to pet foods. Some chains like Rite Aid have no permanent departments and seldom, if ever, promote pet foods. "Our stores are too small and there are too many problems with handling the category for us," says one source.

However other chains with small or bantam stores do have at least four ft. regular departments including CVS headquartered in Woonsocket, R.I. and Duane Reade headquarted in New York.

CVS promotes pet foods at least once a quarter and one source said their total sales from pet foods were up "30% over last year."

Duane Reade also has a four ft. set in their midtown Manhattan stores, and although Duane Reade doesn't advertise any category, their sales in this department are also up in excess of 30%, according to a source.

Duane Reade only carries cat food because their primary customer doesn't travel to the stores by car, but comes in off the street to shop for fill in items.

Jack Eckerd is also rolling out a four ft. permanent section to all its stores, and is planning some aggressive promotions to highlight the category.

One source said they were attracted to pet foods "by the size of the category" and by "its potential for impulse sales."

Fay's Drug in Liverpool, N.Y., which promotes pet foods very aggressively, is also considering a permanent department, and an 8 ft. planogram should be in test shortly, sources said.

Most drug chains only carry the 5-lb. bags of dry food as well as several brands of canned and semi moist cat and dog food. Again the mix is usually 60% cat food versus 40% dog food. Cat litter is almost always in nonfood stores, and generally most chains prefer to stock the Lowe brands, Kitty Litter and Tidy Cat 3, which dominate the litter category.

Many of the bantam drug chains tend to shy away from dry dog food promotions because of their bulk, but some sources say they are currently considering buying 4- and 8-lb. bags of dog food for "promotions."

At last one manufacturer, Quaker Oats, which makes Gravy Train and other pet food brands, is putting together some aggressive deals on these sizes, sources said.

Top 10 Gourmet Cat Food Items
(ranked by unit sales, 24 ounce equivalency)

Rank	Item
1.	9 Lives Sliced Beef/Gravy 6 oz.
2.	Fancy Feast Svry Slm 3 oz.
3.	Friskies Buffet Turkey/ Giblets 6 oz.
4.	Fancy Feast Whitefish/Tuna 3 oz.
5.	Purina 100 Tuna 6 oz.
6.	Friskies Buffet Mixed Grill 6 oz.
7.	Friskies Buffet Beef & Liver 6 oz.
8.	9 Lives Sliced Veal & Gravy 6 oz.
9.	Fancy Feast Seafood 3 oz.
10.	9 Lives Beef & Liver Platter

Source: Manufacturer Research based on Scantrack

Ralston Purina is also looking at putting together different size packs for drug and discount store retailers, including smaller bags for the drug stores and larger boxes for the discounters. Another possibility is cannister sizes for small treats.

At Carnation, their management is trying to "tailor" their promotional programs to the specific needs of individual retail chains. Earlier this year, for example, Zayre's decided to develop a program that would encourage the purchase of higher ticket cases rather than just cans of pet food. Carnation helped by developing a customized promotion that featured a generous rebate for consumers who bought either Mighty Dog or Friskies Buffet by the case rather than in pieces.

Sources say that most of the major discount chains including Wal-Mart, K mart and Target have similar types of customized promotions either under discussion or in development.

Many pet food manufacturers are also looking at shrinkwrapping canned pet foods for special promotions. Warehouse clubs have always asked for shrink wraps so they can make bulk purchases easier for their customers, but now many discount chains are asking for similar assistance.

One buyer said the ability to offer shrink wraps would give him an extra advantage over food stores because he could offer a higher savings at a greater convenience to his customers.

Drug chains, however, are not as interested in programs that feature larger size purchases because most of their stores are too small to take advantage of such opportunities. Their preference is still for promotions that feature smaller, easier to carry sizes.

One pet food buyer for a northeast based drug chain said he was attracted by the chance to feature smaller packs of dry dog food, which is the biggest segment in the category with over $1.7 billion in food store retail sales. He also said that he felt competition with food stores and with mass merchandisers would be less intense because these chains tend to favor promo-

“We can make our margins and yet still offer consumers a considerable savings on the dry foods everyday,” said the source, “but we can't undercut the food stores on the canned brands and still make as much money as we like, so we just aren't going to carry the cans right now.”

Drug chains today are also reacting much faster to new product introductions from the major pet food manufacturers. Longs, for example, has already featured Carnation's new Grand Gourmet in several ads, and so has Fay's and F & M.

The discount chains have traditionally been even quicker to pick up on new launches in this category. This year, both Wal-Mart and Zayre's have promoted two of Purina's newest launches, Grrravy and Hearty Chews.

Buyers say that promotions built around new items give them a chance to take a higher margin because food stores haven't gotten around yet to discounting the item. Buyers also say that with pet foods, “there is no sense having an everyday department unless you promote it aggressively and build its visibility.”

Top 10 Gourmet Canned Dog Food Items

(ranked by unit sales, 24 ounce equivalency)

Rank	Item
1.	Alpo with Beef Dinner Chunks 14 oz.
2.	Kal Kan Beef Dinner Chunks 14 oz.
3.	Mighty Dog with Beef 6.5 oz.
4.	Alpo with Liver Dinner Chunks 14 oz.
5.	Mightly Dog Reg Gourmet 6.5 oz.
6.	Cycle 4 with Beef & Gravy 14 oz.
7.	Mighty Dog with Beef & Chicken 6.5 oz.
8.	Alpo Chicken Dinner 14 oz.
9.	Alpo Beef 14 oz.
10.	Cycle 2 Beef & Gravy 14 oz.

Source: Manufacturer Research Based on Scantrack

Nonfood chains think of pet care items as “convenience” categories

Nonfood chains are continuing to promote the pet food category aggressively and most are continuing to carry convenience assortments everyday to satisfy what one buyer says is “the army” of pet food lovers in the nation today.

Most buyers are continuing to support pet food, pointing out that the pet food market is very big. “So many people have pets today,” says a source for Fay's Drug in New York, “that pets sometimes eat better than people.”

Buyers also say they still get strong sell throughs with pet food, especially when they advertise a major brand at a hot price.

Most buyers also say they will only advertise the national brands like Alpo, Mighty Dog, Gravy Train, Gainesburgers, Puss N Boots, Purina, 9 Lives, Friskies, etc.

Discount chains, which have more space for the bulkier sizes of pet food, tend to promote the category more often than drug chains, and Wal-Mart is particularly aggressive with pet food promotions because so many of their stores are in small rural markets.

However, even in New York City, the category gets attention. Duane Reade, whose 5,000 sq. ft. stores average about $1100 a year in sales per sq. ft., almost always has some pet food on an off shelf display plus they have a modest everyday section in their small universe of stores.

“There are a lot of animal lovers in New York too,” says one manager.

The warehouse clubs too are aggressive with the category, and pet food gets plenty of off shelf display in chains like Price Club, Sam's Wholesale Clubs, Makro, The Wholesale Club, etc.

Snacks for dogs are getting ad activity today, because they are an easier item to handle than the bags of dry food. Milk Bone dog biscuits is a popular feature in many chains today, including K mart. A typical ad price is $2.97 for a 4-lb. box.

Quaker Oats has a cat treat called Pounce that the company promotes once or twice a year. Longs and Thrifty have been particularly active with this item, and CVS has featured the Pounce holiday pack, a two pack stocking stuffer gift set at Christmas.

New items still don't get as much play in nonfood stores as they do in the food chains, but there are some chains that are starting to get much more active with these types of items.

Buyers say that by promoting a new item from an established manufacturer, they can attract incremental sales at an attractive margin because food chains don't usually “football” a new item in the beginning of its life cycle.

Wal-Mart and Zayre's have both promoted two of Purina's newest items: Grrravy, a dry dog food that produces a gravy when water is added to it, and Hearty Chews, a soft treat for dogs. Longs, Fedco, Venture, Fay's and F&M have all promoted Carnation's new high margin Grand Gourmet, described by one buyer as “an ultra gourmet canned dog food that looks like beef stew. Because it's expensive and positioned as a gourmet pet food, we can get a better margin from it even when we promote it,” he said.

Sources from many of these chains say the promotions were successful and at least Wal-Mart and Zayre's are now adding the Purina items to their everyday department.

Bonus packs are also getting more play this year. Last March, Zayre's promoted Quaker's special 30 pack for Gravy Train. One manager says most stores sold through in less than two months.

Some chains say they are getting more aggressive with pricing in this category to compete with increased competition from wholesale clubs and deep discount drug stores as well as food chains.

However, others say they are looking for longer margins to increase their bottom line profits. There does not seem to be an overall trend in this area, however, the pricing still seems primarily determined by local competitive situations.

In this past year, the warehouse clubs have more than doubled their sales of pet foods, sources say. Today just about every major chain from Sams through Price Saver stocks pet foods everyday, and they carry everything from individual cans of cat food to cases of cat food and 50-lb. bags of dry dog food.

Mother's Day fragrance sales could stand promotional boost

Chain drug stores had a simple approach to the fragrance category last Mother's Day.

According to a *Drug Store News*-sponsored audit of 415 chain drug stores, most chains did very little to prompt gift sales of fragrances at Mother's Day, and chains did even less to try to capture early sales for Father's Day fragrance gifts.

Even though chains weren't very aggressive with fragrances at Mother's Day, most buyers said the category did "all right for them" in May. Nielsen Marketing Services reports that sales for the May-June period were up about 2 percent. In contrast, fragrance sales were either flat or down for the two periods just before May-June.

Most buyers told *Drug Store News* they consider Mother's Day and Father's day "minor holidays" which aren't particularly conducive to generating incremental fragrance sales.

"People don't tend to buy fragrances that much as gifts at holidays like Mother's Day, Valentine's Day, or Father's Day," said one buyer. "They seem to be going more for either candy or apparel or they go for larger-ticket purchases like stereos or microwaves."

"There's a great deal less out there than there is at Christmas," said the vp-merchandising for a major northeastern drug drug. "It's not driven by consumer demand as it is at Christmas. At Mother's Day, people are thinking about getting Mom out of the house and going out to eat. The result is that there's just a marginal opportunity for selling fragrances at this time of the year."

The average chain drug store, we found, only increased its linear footage for fragrances by 29 percent at Mother's Day, compared to a 79 percent increase at Christmas. Minneapolis-based SPAR Marketing Research, which conducted the chainwide fragrance audit for us on April 21, 1988, reported that the total amount of linear feet for fragrances in the 415 stores surveyed was 32,324.

SPAR found that the stores in our audit gave fragrances another 9,502 linear feet for promotional displays in mid-April, an increase of 29 percent over everyday allocations.

Through SPAR, we also found that at the Mother's Day promotional period, there were 47 percent fewer stores displaying fragrances off-shelf than there were at Christmas.

And the stores that did display fragrances at Mother's Day gave the brands they highlighted much less exposure than they had given them at Christmas.

At Christmas, the average drug chain increased its total linear feet for brands like Forever Krystle, Lady Stetson and Chantilly by 80 percent, 122 percent, and 106 percent, respectively. At Mother's Day, these same brands were given much smaller linear feet increases of 43 percent, 49 percent, and 64 percent, respectively.

Several buyers and merchandising executives said they felt this rather conservative approach to fragrance merchandising at Mother's Day was justified by the "limited nature" of the holiday.

One merchandising vp for a major midwestern drug chain told *Drug Store News* his stores do less fragrance merchandising at Mother's Day because "while it's a good holiday for drug stores, it's not that important for fragrances.

"We sell a ton of candy at Mother's Day," he said, "and we do a lot with last minute sales of low-end merchandise, but we only get slight movement from fragrances."

Several sources pointed out that Mother's Day does not generate as much traffic as Christmas and so it is much harder to capture impulse sales. One buyer also said that he doubts if shoppers come into drug stores at Mother's Day intending to buy a fragrance as a gift.

Some retailers who helped us interpret SPAR's findings felt that there really isn't much that can be done to

Continued on page 134

Methodology of SPAR study

At the request of *Drug Store News*, SPAR Marketing Services, an Eden Prairie, Minn.-based company that specializes in in-store data collection, audited the fragrance departments of 415 chain drug stores in the top 20 metro markets.

The survey was done on Thursday, April 21, and it was designed to determine the following:

- How much extra display space did the average chain drug store give fragrances at Mother's Day?
- What were the most popular types of displays for merchandising fragrances: islands, endcaps, counter displays or expanded shelf allocations?
- What percent of chain drug stores merchandised their fragrances under glass at Mother's Day?
- How are some of the major brands displayed at Mother's Day? How much expanded space are they given in the average chain drug store, and where are they generally displayed?
- What were some of the most productive brands at Mother's Day, i.e., the brands that generated the highest sales within the space allocations they were given?
- When did the average chain drug store put up its fragrance displays for Mother's Day, and how many stores supported those displays with point-of-purchase aids? and
- How did the chains with the strongest cosmetics/fragrance programs treat the fragrance category at Christmas? How did Walgreens, Longs and CVS merchandise select brands?

We shared the data that SPAR collected for us with merchandisers and buyers for eight of the industry's top drug chains.

Our analysts included four vps-merchandising for chains in the top 10, one president of a small regional chain based in the northeast, and three cosmetics/fragrance buyers.

We hope their opinions on our report will be useful to any retailer who would like to find new ways to maximize overall sales in the fragrance category, and especially during "minor holidays" like Mother's Day and Father's Day, which we believe are currently "neglected opportunities" for generating incremental fragrance sales.

Space allocations for fragrances at drug chains at Mother's Day vs. Christmas

Event	Average size of everyday fragrance department (avg. linear ft.)	Additional promotional display space (avg. linear ft.)	% increase in total linear ft.
Measured for Mother's Day '88	78.8	30.3	29%
Measured for Christmas '87	85.8	75.1	79%

Source: Drug Store News/Spar Marketing Services

Comparison of select chain drug store strategies for merchandising Xia Xiang at Mother's Day

(Percent of stores with the following types of displays)

Chain	% with endcaps	% with counter displays	% with island displays	% with expanded shelf space
CVS	0.0%	0.0%	100.0%	0.0%
Eckerd	0.0	0.0	100.0	0.0
Revco	0.0	0.0	0.0	0.0
Rite Aid	0.0	0.0	0.0	0.0
Sav-on	0.0	60.0	20.0	20.0
Walgreens	0.0	0.0	100.0	0.0
Longs	0.0	25.0	62.5	25.0
PayLess	60.0	0.0	20.0	20.0
Thrifty	100.0	0.0	0.0	0.0

Source: Drug Store News/Spar Marketing Services

How Longs Drug merchandised select women's fragrances last Mother's Day

(Percent of stores using these types of displays)

Brand	% under glass	% endcap	% counter	% island	% extra shelf space	% with POP
Aviance	22.2%	25.0%	0.0%	50.0%	25.0%	18.8%
Chantilly	25.0	0.0	28.6	71.4	28.6	0.0
Charlie	18.8	20.0	40.0	40.0	20.0	31.3
Coty Musk	10.0	0.0	0.0	100.0	50.0	0.0
Deborah ScentSational	100.0	0.0	0.0	0.0	0.0	0.0
Emeraude	18.8	20.0	0.0	60.0	20.0	6.3
Enjoli	20.0	0.0	0.0	80.0	20.0	0.0
Forever Krystle	31.3	0.0	28.6	71.4	14.3	6.3
Total Glorious	42.9	0.0	20.0	40.0	40.0	0.0
Glorious Eaudet	38.5	0.0	0.0	100.0	0.0	0.0
Glorious Perfume	50.0	0.0	25.0	25.0	50.0	0.0
Intimate	14.3	0.0	0.0	0.0	100.0	0.0
Jontue	20.0	0.0	0.0	100.0	0.0	0.0
Jungle Gardenia	25.0	0.0	0.0	0.0	0.0	0.0
Lady Stetson	28.6	20.0	20.0	60.0	0.0	6.3
Le Jardin de Max Factor	31.3	0.0	0.0	100.0	0.0	0.0
Primo	0.0	75.0	0.0	50.0	0.0	12.5
Scoundrel	13.3	0.0	0.0	0.0	0.0	0.0
Vanderbilt	40.0	14.3	28.6	42.9	42.9	0.0
Xia Xiang	25.0	0.0	25.0	62.5	25.0	12.5
All women's fragrances	**50.0**	**40.0**	**50.0**	**70.0**	**50.0**	**43.8**

Source: Drug Store News/Spar Marketing Services

Mother's Day fragrances

Continued from page 133

turn Mother's Day into a fragrance selling opportunity. However, others thought that fragrance sales could be increased if manufacturers and retailers worked together on making this goal a priority.

One vp said that trying to sell more fragrances at Mother's Day would be "going against the trend of the market.

"The customer sets the tone," he said. "If they were ready to buy fragrances as a they'd buy from basic stock. But they're not. We get a little bump in fragrance sales at Mother's Day and an even smaller bump at Father's Day, but it's not much. Christmas is our event. In our chain, we do half of our fragrance business in the Christmas quarter."

Many people believe fragrance sales could be increased if suppliers and retailers worked together and made it a priority.

A source for a major chain based in the Southeast said that one of the reasons that Mother's Day is less of a drug store event these days is because it's more common for parents to live much further away from their adult sons and daughters.

"It's not as common now for families to get together at Grandma's house to celebrate Mother's Day," she said. "Instead, people mail their gifts, so it's a great season for flowers and cards, but it's become much less important for fragrances.

"Maybe we could do more with fragrances at Mother's Day if the manufacturers were to create a gift set that would include a mailing envelope. But otherwise, I don't think Mother's Day will ever become a strong fragrance event again, and I'm just as glad the manufacturers aren't sending us a lot of gift sets for the season. I doubt they'd sell."

Other sources, however, felt that maybe drug stores could get more incremental sales of fragrances at Mother's Day if manufacturers were to do more to hype and advertise the category on these occasions.

"The manufacturers need to do more at this time of year to encourage a fragrance sale," one buyer said. "If someone sees a nice bonus package or a gift set at a reasonable value, they may stop and think 'Hey, that's a nice size and a nice package and if I buy it, I can also save some money.' "

"We can't build displays if they don't hype their brands with advertising first," said another buyer for a Midwest drug chain. "It would be crazy."

The president and cosmetics buyer for a small regional chain based in the Northeast said they know they can capture "additive sales" for fragrances at Mother's Day, but doing so requires extra efforts on the company's part.

This chain has developed a series of strategies for getting gift sets on display during what it calls the "additive holidays" like Mother's Day, Father's Day and Valentine's Day.

For one thing, it creates its own gift sets by buying little wicker baskets and filling them with a selection of fragrances and line extensions such as dusting powder or small, decorative soaps.

It will also customize a basket for its customers, and it says this strategy, which it has followed for two years now, has helped it generate both impulse and planned sales during the smaller holidays.

This same chain also uses "remnants" of gift sets left over from Christmas and Valentine's Day to put out at Mother's Day and Father's Day, and it also takes advantage of manufacturer pre-packs featuring strong basic stock brands.

"I don't think the manufacturers necessarily have to give us more gift sets at these types of holidays," says the chain president, "but I would prefer to see more basic stock in a shipper that accents a gift-giving opportunity."

Sources also agreed that fragrances may need more space to perform better during the minor holidays.

One vp said that increasing display space for fragrances just by 29 percent wouldn't make or break the category.

"If your space overall just increases by 29 percent, you'll probably sell just as much as you normally would have anyway. It's not a good test of what fragrances could do at Mother's Day if we did do something aggressive to merchandise them."

In the end, though, a consensus wasn't reached on whether drug stores could or could not get better sales by doing more to hype fragrances during the minor holidays.

Half of the retailers who were "our experts" on interpreting the SPAR findings felt that chains were already maximizing fragrance sales during the smaller holidays, and anything more would probably result in overstocks or poor sell-throughs.

The other half thought it might be possible to do more for fragrance sales if the manufacturers were to hype the category during the Mother's Day, Father's Day and Valentine's Day periods.

A vp of a chain based in the Northeast argued the smaller holidays would get more merchandising support from retailers "if the manufacturers did more to hype them.

Some suggested improving gift sets designed to be sent through the mail, in order to compete with traditional gifts like greeting cards and flowers.

"But you don't see many manufacturers bringing out special displays or special value packs for Mother's Day," he said. "And I don't see a lot of advertising geared to building demand for the brands at this period either.

"So there's no reason to give the category that much more off-shelf display space if the manufacturers aren't getting the consumers psyched up to want to buy their products."

How Walgreens merchandised select women's fragrances last Mother's Day

(Percent of stores using these types of displays)

Brand	% under glass	% endcap	% counter	% island	% extra shelf space	% with POP
Aviance	46.4%	0.0%	100.0%	0.0%	0.0%	0.0%
Chantilly	29.5	14.3	10.7	71.4	7.1	20.5
Charlie	25.0	0.0	50.0	25.0	25.0	0.0
Coty Musk	45.8	100.0	0.0	0.0	0.0	0.0
Deborah ScentSational	18.2	53.3	0.0	60.0	6.7	18.2
Emeraude	50.0	9.5	0.0	85.7	4.8	9.1
Enjoli	52.4	4.8	9.5	71.4	14.3	6.8
Forever Krystle	33.3	13.6	13.6	63.6	9.1	18.2
Total Glorious	88.1	22.2	44.4	22.2	11.1	4.5
Glorious Eaudet	84.4	25.0	50.0	12.5	12.5	2.3
Glorious Perfume	100.0	0.0	50.0	50.0	0.0	2.3
Intimate	34.9	0.0	0.0	33.3	66.7	2.3
Jontue	30.2	0.0	33.3	33.3	33.3	2.3
Jungle Gardenia	61.5	0.0	0.0	100.0	0.0	0.0
Lady Stetson	30.2	15.4	3.8	69.2	19.2	13.6
Le Jardin de Max Factor	25.0	0.0	0.0	66.7	33.3	0.0
Primo	27.9	25.0	0.0	62.5	12.5	4.5
Scoundrel	28.9	0.0	0.0	33.3	66.7	0.0
Vanderbilt	83.7	4.5	54.5	50.0	9.1	18.2
Xia Xiang	32.6	0.0	0.0	100.0	0.0	0.0
All women's fragrances	**90.9**	**28.6**	**45.2**	**81.0**	**19.0**	**50.0**

Source: Drug Store News/Spar Marketing Services

How CVS merchandised select women's fragrances last Mother's Day

(Percent of stores using these types of displays)

Brand	% under glass	% endcap	% counter	% island	% extra shelf space	% with POP
Aviance	7.7%	0.0%	14.3%	71.4%	14.3%	12.5%
Chantilly	4.3	0.0	10.0	60.0	30.0	8.3
Charlie	0.0	0.0	12.5	62.5	25.0	4.2
Coty Musk	0.0	0.0	0.0	66.7	33.3	4.2
Deborah ScentSational	0.0	0.0	0.0	0.0	0.0	0.0
Emeraude	4.3	12.5	12.5	50.0	37.5	8.3
Enjoli	4.3	0.0	0.0	100.0	0.0	0.0
Forever Krystle	4.3	10.0	0.0	80.0	10.0	12.5
Total Glorious	0.0	0.0	0.0	100.0	0.0	0.0
Glorious Eaudet	0.0	0.0	0.0	100.0	0.0	0.0
Glorious Perfume	0.0	0.0	0.0	0.0	0.0	0.0
Intimate	4.5	0.0	0.0	80.0	20.0	4.2
Jontue	0.0	0.0	0.0	75.0	25.0	4.2
Jungle Gardenia	0.0	0.0	0.0	50.0	50.0	0.0
Lady Stetson	4.3	8.3	8.3	66.7	25.0	12.5
Le Jardin de Max Factor	0.0	0.0	0.0	0.0	0.0	0.0
Primo	0.0	13.3	0.0	80.0	20.0	25.0
Scoundrel	6.7	0.0	0.0	50.0	50.0	4.2
Vanderbilt	0.0	0.0	25.0	75.0	0.0	4.2
Xia Xiang	0.0	0.0	0.0	100.0	0.0	0.0
All women's fragrances	**5.2**	**15.8**	**15.8**	**73.7**	**15.8**	**41.7**

Source: Drug Store News/Spar Marketing Services

SPAR Mother's Day fragrance study

A display case of fragrances at the Topeka, Kan., Hypermart.

Retailers analyze fragrance space allocations in stores

For drug store retailers, the most popular fragrances at Mother's Day among those we tracked were Chantilly, Vanderbilt, Charlie and Forever Krystle. These were the fragrances that got the most display space as measured in total linear feet.

Interestingly, Chantilly and Forever Krystle got almost as much display space at Mother's Day as they had at Christmas.

Most drug stores gave the brands we tracked substantially less off-shelf display space at Mother's Day compared to Christmas, but Chantilly's off-shelf display allocations were only down by 14 percent and Krystle's were only down by 20 percent.

Vanderbilt and Charlie's Mother's Day display space were down from Christmas by 37 percent and 39 percent, respectively.

The only two fragrances to get more display space in the stores at Mother's Day than at Christmas were Deborah's ScentSational Scents, which are alternative designer fragrances, and the newest scent from Charles of the Ritz, Xia Xiang.

Some of the retailers who helped evaluate the SPAR findings reasoned that Xia Xiang was given expanded space at Mother's Day because the brand did exceptionally well at Christmas even with relatively limited distribution.

Retailers felt the allocations for Chantilly, Vanderbilt and Charlie were justified because of their popularity, but they thought that Lady Stetson, because it is such a strong seller, deserved more total feet than the brand had been given at Mother's Day.

However, our retailers also pointed out that merchandisers have to consider more than market share when they allocate off-shelf display space to any particular fragrance. "Chantilly had four or five promotional programs available for the Mother's Day period," one buyer recalled, "while Jungle Gardenia just had one, and Vanderbilt had about one or two.

"When I look at promotional opportunities for fragrances, I have to look at the programs because my customers want to see something special. They want a value, and to get an incremental sale at an event like Mother's Day, I need a good program because I don't have a captive audience at this holiday. People aren't coming into my stores looking to buy a fragrance as they do at Christmas."

Another buyer for one of the major deep discount drug chains said that it made good marketing sense that Chantilly was so prominently displayed during the Mother's Day sales period.

"Chantilly's allocations make sense because the brand has been around so long," she said. "It's more of a traditional fragrance. Many women can remember their grandmothers using Chantilly. It's not geared to as young a market as say Vanderbilt or Lady Stetson."

There were two alternative designer scents among the fragrances tracked: Primo and Deborah's ScentSational Scents.

Primo was in nearly 80 percent of all the stores audited and it was given a generous allocation of space, 662 total linear feet. However, that was down 43 percent from Primo's allocations at Christmas, which our sources said made sense.

"Many shoppers don't buy the ADFs to give as gifts," one buyer pointed out. "They are more commonly a self purchase."

ScentSational Scents was given more space in the stores that displayed it than it had been given at Christmas, but the line was in a much smaller number of total stores than the other brands we audited.

Several buyers, in fact, said they were cutting back on space for alternative designer fragrances. "The category is not as strong as it once was," said the buyer for a major midwestern chain. "We've cut back and right now I'm only carrying a few select SKUs."

Not too surprisingly, men's brands were not given much display space in April.

Jovan Musk got the most display space in mid-April, and it could be because the stores were hoping to pick up early Father's Day sales, and also because Beecham has been sending out attractive pre-packs of Jovan Musk to complement stepped-up advertising for the brand.

The original Pierre Cardin fragrance got the second highest space allocation in mid-April, which was surprising at first, until several buyers explained that the Cardin brand has been doing much better under Shulton's management.

Several sources said Shulton has been putting more "creativity" behind the brand, and its marketing hasn't been as "stodgy" as it has been in earlier years.

The same was true for Adidas. Several buyers say Adidas sales have been picking up, and one source said the brand's sales in her deep discount drug stores were "very strong.

"It's because of the interest in the Olympics, I think," she said. "They have just done an excellent job of advertising Adidas and tying it into the Olympics."

However, sources also felt that some men's fragrances, particularly Night Spice and Iron, didn't seem to have gotten enough space based on their relatively strong launches and their general success at Christmas.

Our sources thought the allocations for some of the other leading brands, Chaps, Stetson and English Leather Cologne, however, were "right on target."

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SPAR Mother's Day fragrance study

Comparison of select chain drug store strategies for merchandising Lady Stetson at Mother's Day

(Percent of stores with the following types of displays)

Chain	% with endcaps	% with counter displays	% with island displays	% with expanded shelf space
CVS	8.3%	8.3%	66.7%	25.0%
Eckerd	8.3	8.3	91.7	0.0
Revco	30.0	10.0	60.0	10.0
Rite Aid	0.0	0.0	87.5	12.5
Sav-On	0.0	0.0	100.0	0.0
Walgreens	15.4	3.8	69.2	19.2
Longs	20.0	20.0	60.0	0.0
PayLess	50.0	0.0	37.5	12.5
Thrifty	9.1	36.4	54.5	9.1

Source: Drug Store News/Spar Marketing Services

*The most productive women's fragrances**

(The relationship between share of dollar sales and average space allocations. An index of 100 is average. Anything higher than 100 shows above average productivity.)

Brand	Efficiency index
Jontue	167.3%
Charlie	156.8
Vanderbilt	149.1
Le Jardin de Max Factor	144.2
Intimate	135.1
Enjoli	120.0
Forever Krystle	115.4
Lady Stetson	105.2
Primo	103.3
Total Glorious	102.3
Scoundrel	91.9
Xia Xiang	63.7

* Based on dollar share for the 12 months ending March/April 1988.

Source: Drug Store News/Spar Marketing Services

*The most productive men's fragrances**

(The relationship between share of dollar sales and average space allocations. An index of 100 is average. Anything higher than 100 shows above average productivity.)

Brand	Efficiency index
Old Spice	228.0%
Stetson	180.0
Carrington	140.0
English Leather	135.5
Total Chaps	129.4
Pierre Cardin Original	104.7
Jovan Musk	103.4
Brut	98.5
Iron	68.1
Night Spice	62.7

* Based on dollar share for the 12 months ending March/April 1988.

Source: Drug Store News/Spar Marketing Services

Study eyes brands that give best sales for allocated space

At Mother's Day, chain drug stores got the highest productivity out of Jontue, Charlie, Vanderbilt, Le Jardin de Max Factor and Intimate.

Of all the women's brands tracked, these were the ones that yielded the highest sales in the space allotted during the Mother's Day sales period.

The study's index correlated share of sales in the May-June period to share of shelf allocations on the day of audit, April 21. An index of 100 was average. Any brand that scored 100-plus in the index was super-efficient, generating higher sales in space allocated. Any brand with less than a 100 index was deemed disappointing.

Glorious, Primo and Lady Stetson were slightly above average. Their sales, as measured by numbers provided by manufacturers, were slightly better than the amount of space they were given in the 415 stores SPAR audited.

Scoundrel and Xia Xiang, however, were under-productive at Mother's Day. Based on the amount of space they were given in the stores audited, they failed to generate the dollar sales that would be equivalent to space allocations.

The retail drug merchants *Drug Store News* asked to help evaluate our findings said that Scoundrel hasn't been a particularly strong seller, and that its market niche doesn't make it a logical choice for a Mother's Day fragrance. Chantilly, Vanderbilt, Jardin and Intimate were considered much more popular selections for Mother's Day gifts because they were more "established" and more "traditional."

Xia Xiang, several sources pointed out, did very well last Christmas and may have been given too large an increment of additional display space for the spring period.

"Because it's still building its base, it's probably better off in less space," said one source. "It looks like for this period, it was just given more space than it needed."

Among the men's brands tracked, Old Spice was the runaway leader in productivity. Stetson, Carrington, English Leather and Chaps also did well, in that order.

Pierre Cardin and Jovan Musk were slightly above average. Brut was slightly down, and Iron and Night Spice, both new scents, were disappointing.

Sources said Old Spice sells well year-round, and Cardin and Jovan Musk brands have been growing.

The women's brands that get the most space

(Mother's Day total actual space allocations compared to total space allocations last Christmas)

	Selected brands ranked by actual total linear ft. and by share of shelf space.			
Brand	Linear ft., Mother's Day	Share of shelf, Mother's Day	Linear ft., Christmas	Spare of shelf, Christmas
Chantilly	1212	4.1%	1407	4.1%
Vanderbilt	1116	3.8	1770	4.4
Forever Krystle	953	3.2	1190	2.9
Charlie	948	3.2	1545	3.8
Jontue	764	2.6	1200	3.0
Emeraude	702	2.4	N.A.	N.A.
Le Jardin de Max Factor	701	2.4	1407	3.5
Primo	662	2.2	1160	2.9
Lady Stetson	650	2.2	1007	2.5
Enjoli	619	2.1	854	2.1
Total Glorious	494	1.7	549	1.4
Scoundrel	453	1.5	615	1.5
Intimate	440	1.5	674	1.7
Xia Xiang	420	1.4	370	0.9
Aviance	409	1.4	623	1.5
Coty Musk	349	1.2	N.A.	N.A.
Deborah Scent Sational Scents	148	0.5	114	0.3
*Jungle Gardenia	93	0.3	180	0.4

*Results based on distribution in less than 30% of all stores surveyed.

N.A. = Not available.

Source: Drug Store News/Spar Marketing Services

*The men's brands that get the most pre-Father's Day display space**

(As measured in April '88 vs. Nov. '87)

Brand	Linear ft. April ' 88	Share of shelf space	Linear ft. Nov. '87	Share of shelf space
Jovan Musk	667	5.5%	990	4.8%
Original Pierre Cardin	613	5.1	914	4.4
Chaps Original	564	4.7	926	4.4
Stetson	538	4.4	1625	7.8
English Leather Cologne	518	4.3	1026	4.9
Old Spice Cologne	446	3.7	1441	6.9
Brut Cologne	418	3.5	1109	5.3
Carrington	389	3.2	679	3.3
Adidas	380	3.1	437	2.1
Chaps Musk	334	2.8	548	2.6
Iron	320	2.6	467	2.2
Pierre Cardin Musk	205	1.7	279	1.3
Night Spice	193	1.6	280	1.3
Dallas	122	1.0	202	1.0

* Selected brands ranked by actual total linear ft. and by share of shelf space

Source: Drug Store News/Spar Marketing Services

A customer makes her women's fragrance selection at a Perry Drug unit. Research shows that chain drug stores got their highest productivity for Mother's Day sales out of Jontue and Charlie.

Islands, free-standing displays get high marks

Fragrance is not given as much off-shelf display space at Mother's Day as it gets at Christmas, but the retailers who evaluated this latest fragrance audit said the space that fragrances did get at Mother's Day was better allocated than what the category was given at Christmas.

At Mother's Day, more stores used island and free-standing displays than had been the case at Christmas. Also, fewer stores simply gave select brands expanded shelf space for display, and fewer used endcaps and counters.

The retailers who previewed the SPAR findings told *Drug Store News* that island and free-standing displays are the best "showcases" for fragrances at holiday periods because they demand shopper attention and help brands "stand out in an eye-catching way."

One source said it was virtually futile to try to generate incremental sales through expanded on-shelf allocations. "At Mother's Day, shoppers aren't necessarily looking for fragrances as a gift, and if you just merchandise it on the shelf, it will never stand out, [and] never attract an impulse sale because no one will notice it," said one vp-merchandising.

Fragrances under glass

Most buyers who had a chance to comment on the audit results were discouraged by the large number of stores that displayed fragrances under glass at Mother's Day.

The audit showed that 64 percent of stores had some women's fragrances under glass during the Mother's Day period, including such mass brands as Charlie, Forever Krystle, Intimate, Jontue, Lady Stetson, Le Jardin, Vanderbilt, Xia Xiang, and even in some cases, alternative designer fragrances like Primo and Deborah.

"If it's an expensive designer fragrance, then I can see putting it under glass," said the buyer for a deep discount drug chain which generates a hefty volume in fragrance sales, "but it doesn't make any sense to put brands like Aviance or Intimate or Jontue under glass. It inhibits sales.

"If you want to get an impulse sale, then you have to have the selection out for the customer," she added. "Or if you must put it under glass and behind the counter, then you have to have someone always there just to service that department."

Sources also said they were glad to see that just 30 percent of the stores audited used endcaps for fragrances at Mother's Day. One source said that at the Mother's Day period, "endcaps are better used for other types of merchandise like candy, small gifts and appliances."

Retailers also expressed satisfaction that most stores in the audit managed to get Mother's Day displays up early enough for the holiday. Indeed, the audit showed that 74 percent of stores had displays up by April 16, several weeks prior to Mother's Day, and nearly 98 percent of all stores had them up by April 23.

However, at Mother's Day, stores were much less professional about using POP displays. SPAR reported that just one-third of stores used POP with at least one display, compared to 50 percent at Christmas.

"A display without some signing or POP is just not as effective as it could otherwise be," said one vp for a Northeastern chain. "I don't think it bodes well that so few displays had POP. You lose the chance to catch an impulse sale without POP. The display just doesn't stand out as well."

The support chain drug stores give select women's brands at Mother's Day

(Percent of stores using these specific types of displays)

Brand	Percent of stores with promotional displays	Percent using this type of display			
		Endcap	Counter	Island	Extra shelf space
Forever Krystle	40.4	19.3	13.9	57.2	16.9
Chantilly	39.4	26.5	14.2	54.9	12.3
Lady Stetson	38.2	19.1	12.7	56.7	16.6
Emeraude	38.2	16.6	14.0	59.2	20.4
Primo	37.5	18.8	10.4	65.6	13.6
Vanderbilt	31.6	14.6	28.5	50.0	18.5
Enjoli	29.7	13.9	13.9	63.9	14.8
Le Jardin de Max Factor	6.8	18.2	14.5	54.5	17.3
Charlie	25.1	21.4	18.4	49.5	21.4
Jontue	23.6	20.6	17.5	46.4	22.7
Glorious	17.0	20.0	25.7	40.0	24.3
Xia Xiang	16.5	19.1	19.1	52.9	16.2
Aviance	15.3	19.0	14.3	57.1	28.5
Coty Musk	15.1	24.2	21.0	46.8	17.7
Intimate	12.7	15.4	13.5	55.8	21.2
Scoundrel	9.5	12.8	33.3	35.9	20.5
Deborah ScentSational	6.3	38.5	11.5	53.8	11.5
Jungle Gardenia	4.1	5.9	0.0	58.8	41.2

Source: Drug Store News/Spar Marketing Services

At Mother's Day, more stores used island and free-standing displays than had been the case at Christmas. Also, fewer stores simply gave select brands expanded shelf space for display.

How the average chain drug store used POP at Mother's Day

(For all women's fragrance brands surveyed)

	Percent of stores that had at least one display with POP
Mother's Day '88	34.3%
Christmas '87	50.1%

Source: Drug Store News/Spar Marketing Services

Percent of chain drug stores which got their '88 Mother's Day displays up early*

Week in which Mother's Day displays were up by:	Percent of stores with displays up at this time
3/31/88	4.5%
4/9/88	30.7
4/16/88	74.4
4/23/88	97.5

* Based on 199 stores, or 48% of all stores audited.

Source: Drug Store News/Spar Marketing Services

How chain drug stores supported women's fragrances

(Percent of stores using these specific types of displays at Mother's Day vs. Christmas '87)

	Endcap	Counter	Island or free standing	Expanded shelf space
Mother's Day	34.6%	30.7%	63.8%	28.5%
Christmas	44.0%	34.3%	59.7%	41.4%

Source: Drug Store News/Spar Marketing Services

Percent of chain drug stores that merchandise some fragrance brands under glass

	Mother's Day '87	Christmas '87
All fragrances	69.5%	66.4%
All women's fragrances surveyed	64.4	62.7
All men's fragrances surveyed	48.2	45.5

Source: Drug Store News/Spar Marketing Services

SPAR Mother's Day fragrance study

Comparison of endcap display activity for Mother's Day '88 vs. Christmas '87

Brand	% of stores displaying on endcaps Xmas '87	% of stores displaying on endcaps Mother's Day '88	% increase/ (decrease)
Deborah ScentSational	6.5%	38.5%	492%
Chantilly	16.0	26.5	66
Xia Xiang	16.0	19.1	19
Lady Stetson	16.2	19.1	18
Primo	16.2	18.8	16
Aviance	16.6	19.0	14
Glorious Perfume	9.7	10.5	8
Enjoli	13.1	13.9	6
Forever Krystle	19.2	19.3	1
Jontue	21.1	20.6	(2)
Le Jardin de Max Factor	20.1	18.2	(9)
Glorious Eaudet	25.8	22.4	(13)
Total Glorious	23.8	20.0	(16)
Charlie	27.2	21.4	(21)
Scoundrel	19.5	12.8	(34)
Intimate	23.9	15.4	(36)
Vanderbilt	22.9	14.6	(36)
Jungle Gardenia	9.6	5.9	(39)
Coty Musk	N.A.	24.2	N.A.
Emeraude	N.A.	16.6	N.A.

Source: Drug Store News/Spar Marketing Services

Comparison of under glass display activity for Mother's Day '88 vs. Christmas '87

Brand	% of stores displaying under glass Xmas '87	% of stores displaying under glass Mother's Day '88	% increase/ (decrease)
Xia Xiang	38.9%	48.3%	24%
Glorious Perfume	64.7	76.4	18
Aviance	38.3	43.0	12
Intimate	38.5	41.9	9
Scoundrel	41.6	43.7	5
Deborah ScentSational	25.9	26.9	4
Jungle Gardenia	42.7	44.2	4
Total Glorious	60.9	62.9	3
Forever Krystle	46.7	47.1	1
Jontue	43.0	43.2	0
Glorious Eaudet	59.2	58.9	(1)
Vanderbilt	58.4	58.1	(1)
Charlie	42.2	41.9	(1)
Enjoli	44.8	44.4	(1)
Chantilly	42.7	42.2	(1)
Lady Stetson	40.2	38.4	(4)
Le Jardin de Max Factor	44.1	41.6	(6)
Primo	37.0	34.9	(6)
Emeraude	N.A.	40.3	N.A.
Coty Musk	N.A.	40.0	N.A.

Source: Drug Store News/Spar Marketing Services

A summary of key findings from the SPAR study:

- The majority of all chain drug stores Mother's Day fragrance displays (74.4 percent) were up by April 16, 1988.

- 18 percent of the stores in our survey said they were not planning a Mother's Day display. However, some of these stores could or did have other promotional displays for fragrances.

- The total linear footage or the "everyday allotment" for the fragrance sections we measured for our Mother's Day audit was 32,324 linear feet. In preparation for the Mother's Day holiday, the stores we measured added another 9,502 linear feet for promotional display. This was a 29 percent increase in space for fragrances at Mother's Day, compared to a 79 percent increase at Christmas.

- The percent of stores displaying fragrances decreased substantially from Christmas to Mother's Day. For women's fragrances, there were 47 percent fewer stores displaying fragrances at Mother's Day, and there were 66 percent fewer stores displaying men's fragrances.

- Among the women's fragrances we selectively measured, Xia Xiang had the largest increase in both the number of stores carrying it and in regular shelf space expansion. It also had the smallest decrease in the numbers of stores displaying it.

- At Mother's Day, Chantilly had the best share of shelf space for women's fragrances. Vanderbilt came in second. Last Christmas, their roles were reversed. At Mother's Day, Chantilly took first place because it had the largest share of promotional displays. At Mother's Day, 6.4 percent of all displays went to Chantilly, compared to 3.2 percent for Vanderbilt.

Comparison of counter display activity for Mother's Day '88 vs. Christmas '87

Brand	% of stores displaying on counter, Xmas '87	% of stores displaying on counter, Mother's Day '88	% increase/ (decrease)
Glorious Perfume	6.5%	31.6%	386%
Total Glorious	9.5	25.7	171
Glorious Eaudet	10.1	24.1	139
Vanderbilt	12.7	28.5	124
Scoundrel	15.4	33.3	116
Charlie	12.7	18.4	45
Jontue	13.2	17.5	33
Enjoli	12.6	13.9	10
Lady Stetson	12.8	12.7	(1)
Intimate	13.6	13.5	(1)
Chantilly	15.6	14.2	(9)
Le Jardin de Max Factor	17.4	14.5	(17)
Forever Krystle	17.0	13.9	(18)
Xia Xiang	24.5	19.1	(22)
Aviance	19.2	14.3	(25)
Primo	16.2	10.4	(36)
Deborah ScentSational	28.3	11.5	(59)
Jungle Gardenia	9.6	0.0	(100)
Coty Musk	N.A.	21.0	N.A.
Emeraude	N.A.	14.0	N.A.

Source: Drug Store News/Spar Marketing Services

Comparison of island free-standing display activity for Mother's Day '88 vs. Christmas '87

Brand	% of stores displaying free-standing, Xmas '87	% of stores displaying free-standing, Mother's Day '88	% increase/ (decrease)
Aviance	41.1%	57.1%	39%
Primo	47.7	65.6	38
Forever Krystle	45.4	57.2	26
Intimate	44.3	55.8	26
Enjoli	52.8	63.9	21
Le Jardin de Max Factor	45.2	54.5	21
Lady Stetson	48.5	56.7	17
Chantilly	47.5	54.9	16
Vanderbilt	44.1	50.0	13
Xia Xiang	48.9	52.9	8
Charlie	46.3	49.5	7
Deborah ScentSational	52.2	53.8	3
Jungle Gardenia	57.7	58.8	2
Coty Musk	N.A.	46.8	N.A.
Emeraude	N.A.	59.2	N.A.
Jontue	47.4	46.4	(2)
Scoundrel	44.7	35.9	(20)
Total Glorious	51.4	40.0	(22)
Glorious Eaudet	50.6	37.9	(25)
Glorious Perfume	67.7	47.4	(30)

Source: Drug Store News/Spar Marketing Services

BEAUTY TRENDS

SPAR Mother's Day fragrance study

How the average chain drug store used POP

(For women's brands surveyed)

Brand	% of stores that had at least one display with POP		
	Mother's Day	Christmas '87	% change
Lady Stetson	12.4	16.6	(25%)
Primo	11.9	28.2	(58)
Forever Krystle	11.9	21.8	(45)
Emeraude	11.9	N.A.	N.A.
Chantilly	11.7	16.0	(27)
Le Jardin de Max Factor	9.0	22.4	(60)
Vanderbilt	8.5	22.9	(63)
Charlie	6.3	20.5	(69)
Coty Musk	5.6	N.A.	N.A.
Aviance	4.6	25.8	(82)
Jontue	4.6	15.4	(70)

Source: Drug Store News/Spar Marketing Services

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Retailers should use every available nook and cranny for strong displays, but not so much that turns are sacrificed.

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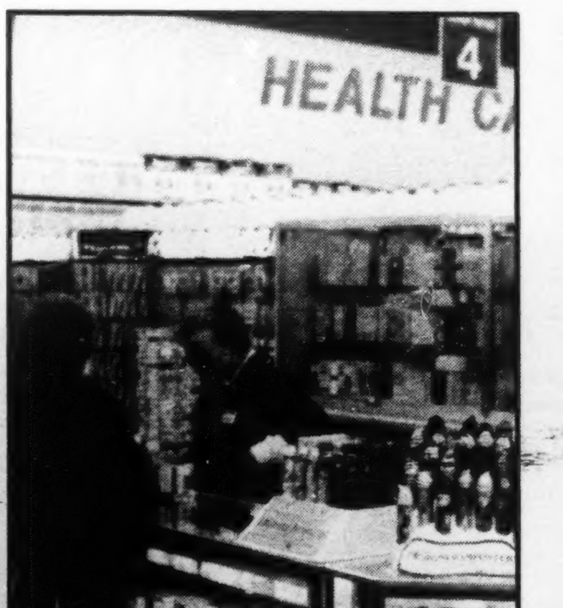
Some tips for merchandising fragrances:

1. Use every available nook and cranny for strong displays, but don't expand space so much that turns are sacrificed.

2. Only put the strongest brands on display, which buyers evaluate by the following:

- dollar market share on a year-round basis;
- the brand's share during the preceding holiday periods;
- the manufacturer's presentation for the products, including packaging, displays and POP materials; and
- the manufacturer's promotional support plans for the brand, such as print advertising, television exposure and sampling.

3. Constantly look for what may become exciting new products or an exciting relaunch of a mature and possibly flat brand.



Retailers should only display those brands that have passed criteria for (1) both year-round and holiday season performance, (2) packaging and (3) promotional support from the manufacturer.

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s seek ce cuts — Page 17

DRUG STORE NEWS®

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Grass blasts reimbursement as 'unfair and unprofitable'

By Barbara White

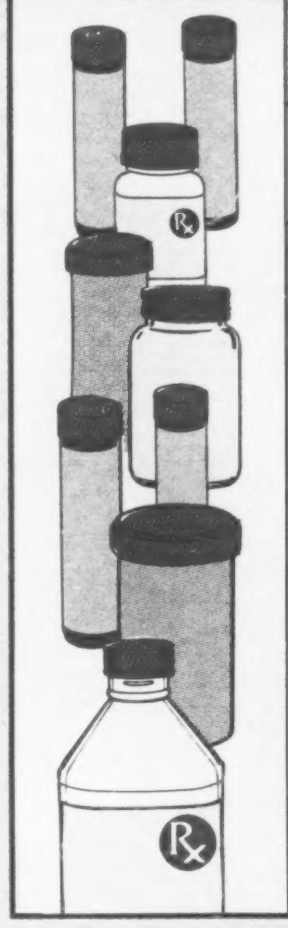
NEW YORK — Alex Grass, chairman and ceo of Rite Aid Corp., publicly challenged "unfair and unprofitable" prescription reimbursement levels set by some third-party plan administrators.

See "In the Market", page 4

In a press conference here, Grass also warned that the Shiremanstown, Pa.-based chain, which operates over 2,000 drug stores, will be more cautious before accepting new third-party plans.

Contracts offered by

See **Grass,** *page 69*



Anatomy of a third party script

	10% AWP discount third party	20% AWP discount third party
Average AWP[1]	$15.56	$15.56
Average fee at AWP[2]	3.00	3.00
Average selling price	18.56	18.56
Less: average AAC[3]	12.64	12.64
Less: AWP discount @ 10%[4]	1.56	@20% 3.11
Gross profit	4.36	2.81
Dispensing cost	5.20	5.20
Net Loss[5]	(0.84)	(2.39)

1. AWP is the Average Wholesale Price of the product set by the manufacturer.
2. Represents the $3.00 current average fee charged to a third party prescription.
3. AAC is the Actual Acquisition Cost of the prescription drug to the pharmacy based upon Rite Aid corporate buying power.
4. Represents the dollar discount at the assumed percentage rate off of AWP.
5. Net loss per prescription before income taxes.

Source: Rite Aid Corp. study

Revco stocks up on holiday cheer; supplies restored

By James Frederick

TWINSBURG, Ohio — Twelve weeks after filing for bankruptcy and facing the near-total collapse of its supply lifelines, Revco D.S. is filling its warehouses and stores with the inventory needed to prepare for the Christmas selling season.

The embattled chain, which entered Chapter 11 July 28, has restored inventory shipments from more than 95 percent of its vendors, executive vp-marketing Jim Adamson told *Drug Store News*. He attributes much of that to a recent credit agreement that assigns special creditors' status

See **Revco,** *page 69*

Chain closing 61 stores by November 5th

TWINSBURG, Ohio — Revco D.S. has closed 12 of its 29 drug stores in metro Detroit, including Store No. 1, and will close 49 other stores around the country by Nov. 5. However, the chain has no plans to close the 17 Revco stores that remain open in the Detroit market, according to a company spokesperson.

See **Closings,** *page 69*

Wal-Mart puts Dot deep discount chain on the block

By David Vaczek

BENTONVILLE, Ark. — Wal-Mart is saying "period" to Dot.

The giant discounter has offered to sell its 14-store Dot deep discount drug chain to at least two national drug chains recently, market sources told *Drug Store News*.

Phar-Mor, Drug Emporium, and F&M Distributors, the Midwest-based low-priced drug leaders, are seen as likely buyers.

A Wal-Mart spokesperson, unable to discuss any possible sale, said Wal-Mart plans no new Dots through 1989. The company had projected earlier it might add as many as nine Dots this year.

Two were added this year in the same sort of heartland metro markets Dot has favored since opening its first store in Des Moines, Iowa, in 1983. There are now five Dots in Kansas City, three in St. Louis, three in Des Moines, two in Wichita, Kan., and one in Lincoln, Neb.

Although some stores approach the $5 million annual sales level, Dot has largely suffered from a faulty location strategy that favors inexpensive, weak metro area sites, according to drug industry sources in Kansas City and St. Louis.

"They've tried to be mini-Wal-Marts," said one Kansas City insider. Sited poorly in the metro area, Dot's KC stores found they couldn't pull customers from a wide enough radius. Wal-Mart's discount stores count on dominating a 10- to 15-mile radius in their small town markets, the source contended.

DEEP
DISCOUNT
DRUGS

Dot is for sale because weak locations are driving inadequate volume, and the operation is a small one for Wal-Mart, sources said.

Also, "they lost a lot of vendor support" by pulling some merchandise from the Wal-Mart warehouses and subsequently shorting orders from local sales reps, the source maintained.

Weekly sales for stores averaging 20,000 to 22,000 square feet have ranged from $60,000 to $140,000, he estimated.

Locations in St. Louis are also "marginal," said Louis Glaser, executive vp-pharmacies division, Medicare-Glaser.

"It's quite competitive, and maybe they didn't do all the homework they should have," said Glaser.

Dot stores slashed SKUs by 25 percent in recent months to improve turns, a company source said. "From a sales standpoint, they really aren't doing that badly. From an operations standpoint, its really not worth it," he said. "This thing is small potatoes to them."

LATE NEWS

- DEERFIELD, Ill. — Walgreen Co. announced that the Haft family has requested federal clearance to buy at least $15 million of the drug chain's stock. Meantime, the Hafts express continued interest in Kroger, and their plans for Walgreens are unclear. Walgreen has a shareholder rights plan in effect and will resist a hostile takeover, chairman Charles R. Walgreen III said.

  Walgreen reported net income for the year ended Aug. 31 rose 25 percent to $129.1 million, from $103.5 million, on sales of $4.88 billion, up from $4.28 billion. Fourth quarter net rose to $31.9 million from $26.2 million, on sales of $1.20 billion, up from $1.08 billion.

- SHIREMANSTOWN, Pa. — Rite Aid said it plans to sell its 46.8-percent interest in Super Rite Foods. An investor group headed by Alex Grass, chairman of Rite Aid and Super Rite, some members of his family and some senior managers of Super Rite will propose to buy all of Super Rite's common stock.

California atty. gen'l sues retailers over tobacco product warnings

LOS ANGELES — The drug store industry's fastest-turning category, tobacco, has come under fire recently in California because many cigar and pipe tobacco products do not carry cancer warning labels.

Seven grocery retailers, the Thrifty drug chain and 25 tobacco companies were named in a lawsuit filed recently by the state attorney general's office because the defendants' warning efforts for cigars and pipe tobacco—called for by the state's Proposition 65—

See **Tobacco,** *page 69*

It remains to be seen whether California's Proposition 65 will prompt similar tobacco labeling efforts in other states.

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NEWS IN BRIEF

Genovese opening 1st deep discounter

CARLE PLACE, N. Y. — Genovese Drug Stores will open its first deep discount store here Oct. 26, across from the giant Roosevelt Field shopping mall and within blocks of a Rock Bottom unit.

The store, named Great American Drug Store, will be 15,000 square feet, said division head Paul Genovese, which is larger than conventional Genovese stores, but smaller than many deep discounters across the country.

Ansell recalls two lots of Lifestyles

DOTHAN, Ala. — Ansell Inc. is voluntarily recalling two lots of its 12-pack Lifestyles Extra Strength condoms with Nonoxynol-9, after Hawaii's Department of Health advised the company that a few condoms had weak spots in the reservoir end. The recall, the first in the company's history, is confined to lot numbers 6087254-C68E and 6087223-C57E, code number 2112. Retailers and distributors are advised to return the coded product to Ansell, 1500 Industrial Rd., Dept. A, Dothan, Ala. 36302.

Longs appoints Renner its gmm

WALNUT CREEK, Calif. — Longs Drug Stores has promoted Barry Renner to general merchandise manager, replacing Dale Bystrom, who joined Osco this summer. Renner has been with Longs since 1959, and during the last 17 years has held managerial positions at six Central California stores.

Bill's moves HQ to Benicia

BENICIA, Calif. — Bill's Drugs recently moved its headquarters here from Lafayette, where the chain had been run since its inception in 1959.

Revco fills two marketing slots

TWINSBURG, Ohio — Revco D.S. has appointed Guy L. Shirk director of advertising and promoted Brent L. Rodgers to director of special programs. Shirk, 44, previously vp and management supervisor at Hesselbart & Mitten of Akron, will be responsible for Revco's image, event and product advertising and media, photographic and print production operations.

Rodgers, 30, who joined Revco in 1976, moved up from supervisor of product presentation. His new responsibilities will include integration of advertising and marketing efforts into existing programs, such as in-store vendor promos and grand opening events.

Vons' headquarters moving

ARCADIA, Calif. — Vons announced it will move its headquarters here from El Monte. Vons has purchased, for an undisclosed amount, a 240,000-square-foot three-level May Co. department store retail site.

Vons spokeswoman Mary McAboy said the chain is currently operating out of three somewhat overcrowded El Monte locations, and with the addition of Safeway stores, the crowding problem has intensified.

Two of the current locations are owned. One includes a distribution center, and the third site is leased. She said Vons will continue to operate the DC and keep the company-owned sites. Some employees will move to the new site this month; the rest in January.

Company that IDs new products formed

NORWALK, Conn. — Group EFO Ltd., a consulting company that helps consumer product companies create and identify new products, opened here recently, according to Edward F. Ogiba, the company's founder and president.

"Identifying a truly innovative product is what marketing and the new product business is all about today," Ogiba, most recently managing director of Product Initiatives, said. "More than 80 percent. . . of all new products fail because. . . they do not create a point of difference for consumers."

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Kroger nixes KKR's second bid and proceeds with restructuring

CINCINNATI — Kroger Co. may stay an independent retailer. Takeover specialist Kohlberg Kravis Roberts & Co. (KKR) cancelled its $5 billion buyout offer for the giant supermarket and combo store chain Oct. 11, after Kroger officials rejected the firm's second bid as inadequate.

Kroger is holding firm with its own defensive plan, which was announced after the Haft family put Kroger into play with its own $4.3 billion takeover offer last month.

KKR said it would pursue no further discussions with Kroger. "We can only conclude that Kroger's board of directors has decided that the company is not for sale, and that it is intent on proceeding with its restructuring," KKR announced in a statement. The buyout firm valued Kroger's plan at $53 to $56 a share, while Kroger has given it a per-share price tag of roughly $58.

Kohlberg earlier expressed "outrage" at Kroger's quick rejection of its last bid, which would have given Kroger shareholders $50 in cash, $11 in subordinated debentures and a small stake in the company for each share of stock. KKR had valued the offer at $64 a share, but Kroger chairman Lyle Everingham called Kroger's own restructuring plan for shareholders "a far superior alternative for Kroger than a sale of the company."

Kroger shareholders have reportedly launched at least four lawsuits challenging the company's decision to restructure rather than sell the chain.

Kroger's defensive plan

Under Kroger's plan, shareholders will be paid a cash dividend of $40 and subordinated debentures worth an estimated $8 a share, as well as "stub" shares in the surviving company. To help fund the restructuring—which will cost Kroger an estimated $4.6 billion and leave it heavily in debt—Kroger has already dismissed 300 headquarters employees and put many of its non-core operations on the selling block.

Kroger units being sold include 29 supermarkets in the Carolinas, the Florida Choice Food & Drug division, Fry's Food Stores in Northern California and the six Wellcome superstores.

If Kroger's defensive plan prevails against other potential suitors, the chain will have to cut its expansion and renovation activity "dramatically" in future years to meet debt payments, according to chain spokesman Paul Bernish. "We spent almost $2 billion over the last four years to build or expand 358 stores, but this restructuring will have a major impact on our future plans," he told *Drug Store News*. "Under the new plan, we're now projecting $150 million a year in expenditures for new and renovated stores between 1990 and 1993."

Bernish added that Kroger would remain in its major markets for the foreseeable future, rather than going outside for new business.

Sixty years of drug store retailing

The following items are taken verbatim from the pages of Chain Store Age Drug Edition, *which became* Drug Store News *in 1979.*

60 years ago

NEW YORK, 1928 — A good rule to remember, when waiting on trade, is: "If a customer seems exceptionally gruff, it may be just a false front to cover up an unusually tender heart."

Or it may be a sense of humor expressing itself in a queer way. If a man can hand you a hot one and you toss it back to him in the right way, then he'll warm up to you. Usually you'll find his bark is worse than his bite.

50 years ago

WASHINGTON, D.C., 1938 — Thomas N. Beavers of Peoples Drug Stores, Washington, said at the National Association of Chain Drug Stores' annual convention that his company advises managers to join service clubs such as Rotary, Kiwanis, and so on, as well as the chamber of commerce. He spoke of a plan of using the store windows at intervals to show the wide range of goods of local manufacturers—a plan that has been effective in small cities.

40 years ago

VANPORT, Ore., 1948 — When disastrous floods struck the Northwest at the end of May and early in June, the drug chains got into action quickly to give aid. The chain drug stores in and on the fringes of the flooded area were closed for the Memorial Day holiday when Vanport, Ore., was overwhelmed. They quickly reopened and sent their stocks of first aid supplies where they were needed.

Rexall Drug in Los Angeles, 1,500 miles to the south, rushed nearly a ton of emergency drugs to an airfield to be flown to the survivors of the disaster. Drug stores used to be proud of the title of "the corner meeting place." They can feel far more proud of the deserved title of "the nation's first aid stations."

30 years ago

NEW YORK, N.Y., 1958 — Overheard in the stores. "I keep a supply of paper bags at the feminine hygiene counter for shy customers, and it's helped our volume. But here's the funny thing: most of those bags are being used by men, whose wives asked them to pick up a box of sanitary napkins. If I didn't have those bags there, a lot of men would refuse to do it."

20 years ago

INDIANAPOLIS, Ind., 1968 — Hook's antique drug store, which has been attracting considerable attention on its site on the Indiana State Fair grounds in Indianapolis, is virtually complete now with the addition of an antique soda fountain apparatus. Dating from 1875, the ornate marble box sports three spigots and syrup knobs, and there's plenty of room for ice inside. Jim Rogers, Hook's public relations director and "manager" of the antique store, paid $250, and he indicated that it is actually worth about $2,000.

10 years ago

CLEARWATER, Fla., 1978 — Less than three years after entering the highly competive Denver market, Jack Eckerd Corporation has called it quits and is pulling out. It is the second major drug chain to leave Denver; the first was Pay Less NW, which abandoned this market a year ago. Stewart Turley, chairman and president of JEC, announced that the 865-store chain had closed its nine Denver area stores at the end of last month.

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Wacky weather plays havoc with sun care product sales

NEW YORK — Depending on location, sun care sales in chain drug stores this past season have been erratic. Some chains report growth as high as 20 percent to 25 percent while others say the category has been flat or only up moderately.

In some sections of the country, buyers say the weather is to blame for flat sales or just moderate growth. It's been rainy or unpleasant and people haven't had much need for tanning or protection products.

For some chains, part of the problem is that they haven't been able to keep pace with last year's incredible growth rates. A few chains told Drug Store News *that in 1987, their sun care sales were up in excess of 90 percent. Most buyers say there is no way they could better that growth this year, so they bought more conservatively, meaning at least 15 percent to 30 percent fewer orders than in 1987.*

In some states, pollution has hampered the public's access to public beaches, and to a certain extent, possibly even dampened the public's desire to even go near an ocean, and buyers say this too has hurt sales.

However, many buyers say they see some falloff in the public's enchantment with high-SPF protection products. Some buyers think the public is confused about "how high an SPF they should buy" and consequently need more guidance from the FDA.

Several buyers also say they think consumers are just staying out of the sun more so they're not buying as many sun care products.

On the other hand, several buyers also reported a great season. The weather was sunny and hot and their customers seemed to be flocking to the beach. When this was the story, most buyers said their category sales were up between 10 percent to 25 percent. Protection and tanning products seemed to sell equally as well.

HANG 10
SURF CITY
Sun Lotion
BUG SPRAY
Soda
Sun Cream

Medicare Glaser copes 'very well' with heat and humidity

In St. Louis, Connie Curran, who buys sun care products for Medicare Glaser, reports a very good season in her stores. There was no rain, no pollution and the only drawback was that it may have been so hot at the height of the season that people were choosing to stay indoors rather than going out where they would need lotions or sun protectors.

Curran said that when the season started, everything was selling well, but by mid to late season, it was so hot "people weren't going out. They couldn't cope with the heat and the humidity."

This year, Pre Sun and Sun Down both did very well at Medicare Glaser. Eclipse and Cancer Garde did not stand out as much as Curran expected they would, and she felt it might be because in her market people were still choosing the protection brands they knew best, so Westwood and J&J had an edge out in St. Louis.

In Medicare Glaser stores, the strongest growth was still coming from the high SPF lines, up at least 20 percent this season, Curran estimated.

Chart 1: Comparison of sun care sales

Retail segment	$ sales (millions)	% change
Food stores	$ 85.9	0.8%
Drug stores	169.0	16.4
Mass merchandise stores	63.3	(1.0)

For the 12 months ending in June 1988

Source: Nielsen Marketing Services

Baby Faces was also selling well to concerned parents, and Water Babies was doing well.

In the tanning categories, Hawaiian Tropics and Coppertone were both doing well because they both have such a large user base, but their growth had leveled off.

The chain is now carrying a small selection of high SPF sku's year round in their skin care section, but it was still just a token business, a small assortment stocked in less than two linear feet.

Tan accelerators were not doing that well here this year, and neither were zinc oxide sun blocks. Bain de Soleil was "okay, but not as strong as it used to be."

Sun Smart was available chainwide in the cosmetics department in prepacks, but by August Curran found movements were "a little slow."

Dot spots five lines, reduces returns

The Dot chain gives its stores a lot of flexibility in how they can individually merchandise the sun care category. Most of the 14 Dots put up islands for sun care and these displays are usually located near the cosmetics department.

In the past, the stores could buy pretty much what they wanted "carte blanche." But last year, management directed the stores to buy just five of the top lines, and that decision, said one source, has dramatically improved Dot's inventory position in the category and substantially reduced the amount of product that had to be returned at the end of the season.

This summer, sun care sales were good at Dot, primarily because there was so much hot weather in their market.

Bain de Soleil turned out to be the number one seller, and some Dot cosmeticians think it is because Bain de Soleil has concentrated on fashion advertising that makes their line "attractive to many young, fashion conscious women."

Pre Sun has been good, but a source said that they have the most returns on some of Pre Sun's higher SPFs. At least one source at Dot thinks that consumers may be getting wary of the marketing claims for the higher SPF brands and there may be the beginning of a trend to stick with the mid level SPFs in the 15 to low 20s range.

Cancer Garde did not perform as well as expected at Dot, and one source said it may be because people heading to the beach are willing to try sun protection to protect against aging, but that cancer is not a primary concern yet with most sun care buyers. "People are worried about aging, but not cancer," one source said.

Tan accelerators did very well in Dot stores this year. Toward the end of September, several stores were reporting that they had none left. Sun Smart, however, did not do that well in most Dot stores. Sources said part of the problem may be because Max Factor didn't do much advertising for the brand and women may not know what it is and what it can do.

Almay also has a small selection of facial makeups with sun protection factors in the formula, but sources said the movement on the line is just fair. "If you're going to buy Almay, then you might buy this line," said one source, "but the line doesn't seem to be selling because it has SPF protection in the formula."

Bullfrog did well in Dot stores this year. Again several stores said they sold out on the line before the season had fully ended.

When Dot advertises sun care, it usually goes with the Coppertone line and sometimes Pre Sun. Coppertone has the "biggest name, the most advertising dollars and the biggest selection," said one source, "so it always does very well on ad."

In the future, Dot will probably try to buy more of the mid level SPFs, the source said, because "I don't think the SPFs will go much higher, and I don't think the consumers want them much higher. People are starting to realize there are only minimal benefits once you go beyond a 15, and some of the higher SPFs are unpleasant to wear. They feel sticky to the skin, and some customers have told me they actually hurt their skin."

Confusion over SPF ratings affects F&M's sun sales mix

In Detroit, sources for F&M Distributors, the deep discounter, report that the category is selling a little slower than last year, when all the higher SPFs sold. This year, only some are selling well.

Banana Boat was in F&M stores for the first time this year, and it is doing well. All the Plough lines are also selling well.

"Last year, you could see a really dramatic change in movement," said one management source. "The high SPFs were really outselling the tanning lotions. This year, the change is not as dramatic, and I think it may be because consumers are getting confused over the SPFs. The FDA will probably have to step in and set down some clearer guidelines."

Among the higher SPFs, the Westwood Pre Sun line is doing well for F&M, but J&J's Sun Down is a little slow. "Sun Down may have over-assorted themselves," the source said, "and their package is still too ethical looking. Many customers want fashion-looking brands."

Cancer Garde has not caught on at F&M, a chain source said, because "People don't want to go to the beach with something that says cancer on it." F&M hasn't decided if it will keep some sun care lines in stock after November. The chain buys most of its sun care lines on deal, and the source says he will have to decide in November whether he'll carry his excess inventory through the winter or send it back to the manufacturer.

"I'll see what I'm left with and then I'll decide," he said. "These items sell better off displays than off the shelf, so I may decide not to carry it inline all year."

Chart 2: Share of sun care sales for 1988*

(In percent)

Food stores	27.0%
Drug stores	53.1
Mass merchandise stores	19.9

*For the 12 months ending in June 1988

Source: Nielsen Marketing Services

Study sees dramatic growth in sun care market

Beauty Beat
Elizabeth Parks

The retail market for suncare products has grown an average of 10 percent annually for the past five years, according to a new study by Packaged Facts, a New York-based research firm.

According to Packaged Facts estimates, this will result in total retail sales of almost $390 million for 1988. This includes retail sales through department stores, food, drug and mass merchandise stores.

Packaged Facts is also predicting that the sun care market will continue to grow "dramatically" for the next five years, and will reach sales of $560 million by 1992.

> *'. . . it's quite likely we'll see a blurring of the definitions of skin care, sun care and makeup.'*

David Weiss, president of Packaged Facts, says the study shows that higher SPF sun protection products will continue to grow at a dramatic rate.

However, Weiss feels that SPFs higher than the mid-20s may not continue to be automatic incentives for sales.

He says the study shows retailers have been reporting "sales jumps whenever the SPF ratings on products rises," but according to Weiss this "numbers game" has about had its day.

When the SPF ratings system was initially introduced, 15 was the highest number recognized by the FDA. Now, SPF's are approaching the 50s, but the FDA has neither acknowledged nor disputed their efficacy at that range.

"There is a question about increased efficacy when the numbers start getting into their mid-20s," Weiss says.

Plus Weiss points out it is likely that consumers will begin using sun protection products more often as they go about everyday activities, especially consumers who live in the Sunbelt.

Consumers who use sun protection items for their everyday needs will not need a maximum strength SPF because their sun exposure will be less intense than exposure at the beach or on ski slopes says Weiss,

He also points out that using higher-rated SPFs means that consumers have to deal with a higher viscosity or "goopier" product, and that, "is an incentive not to use anything higher than is necessary."

Weiss thinks that retailers are going to see "the sun war move away from the beach heads and the heavy artillery required there, and toward lighter defenses to protect the average citizens in the interior."

Sun care products:
Retail growth dollar sales forecast
(Millions of dollars, for all retail outlets)

Year	Sales	% change
1992	$560	9%
1991	$473	9
1990	$430	10
1989	$388	11
1988	$350	11

Source: Packaged Facts Sun Care Study

He believes there is going to be much more opportunity to market and sell cosmetic products with sun protection ingredients. This trend, he adds, will increase in proportion to the predicted growth of the infrared rays. Consumers will have to deal with the dangers of the infrared rays as a result of the continued depletion of the ozone layer.

The danger will become even more visible to consumers as more and more people are forced to seek medical treatment for skin problems brought on by increased infrared exposure.

"Eventually," Weiss says, "it's quite likely we'll see a blurring of the definitions of skin care, sun care and makeup."

The entire suncare study is available from Packaged Facts in New York for $1,250. The study contains sections on market size and growth, brand share information, new product trends, national advertising expenditures and consumer usage.

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The nation's 31 highest volume drug wholesalers

Company	FY ending	Estimated drug wholesale sales (millions)	% change vs. last year
1. McKesson Drug , San Francisco	3/31/89	$5,200	8%
2. Bergen Brunswig, Los Angeles	8/31/89	3,000	11
3. FoxMeyer,** Denver	3/31/89	2,000	7
4. Alco Health Services, Valley Forge, Pa.	9/30/88	2,000	18
5. Bindley Western, Indianapolis	12/31/88	1,300	26
6. Harris Wholesalers, Solon, Ohio	4/30/89	1,100	22
7. Amfac, Burlingame, Calif.	7/1/89	901	7
8. Cardinal Distribution, Inc. Dublin, Ohio	3/31/89	700	34
9. Humiston-Keeling, Chicago	4/30/88	400	11
10. Durr Fillauer, Montgomery, Ala.	12/31/87	324	16
11. Ketchum & Co., Clark, N.J.	9/30/88	300	28
12. Owens & Minor, Richmond, Va.	12/31/88	250	19
13. Moore Medical Corp., New Britain, Conn.	12/31/87	232	21
14. Louis Zahn Co., Melrose Park, Ill.	12/31/88	216	6
15. Drug Guild Distributors, Secaucus, N.J.	7/31/88	190	10
16. Northwestern Drug, Auburn, Wash.	10/31/88	180	(10)
17. Walker Drug, Birmingham, Ala.	1/30/89	170	13
18. Twin City Wholesale Drug, Minneapolis	4/30/89	159	(2)
19. North Carolina Mutual Wholesale Drug, Durham, N.C.	3/31/89	145	11
20. The F. Dohmen Co., Germantown, Wisc.	4/30/89	136	14
21. D. T .C. Smith Co., Asheville, N.C.	4/30/89	120	20
22. J. E. Gould & Co. Portland, Me.	12/31/88	119(est.)	17
23. Solomons Co., Savannah, Ga.	8/31/88	110	22
24. James Brudnick Co., Malden, Mass.	12/31/88	110	16
25. Remo Drug, Brooklyn, N.Y.	12/31/88	95(est.)	17
26. Dik Drug, Burr Ridge, Ill.	12/31/88	85(est.)	15
27. Northwestern Drug, Minneapolis	12/31/88	83(est.)	17
28. South Bend Drug, South Bend, Ind.	12/31/88	80	7
29. Miami-Luken, Inc., Dayton, Ohio	6/30/88	67	5
30. Value Drug, Altoona, Pa.	12/31/88	65	18
31. Walsh-Lumpkin, Texarkana, Tex.	12/31/88	53(est.)	17

Total estimated 1988 sales for top 31: $20.1 billion
Total estimated 1988 sales for industry: $22.4 billion
Top 31 share of total estimated '88 industry sales: 89.7 percent

If the acquisitions go through, McKesson will also account for approximately 34 percent of total drug wholesaling industry sales.

**Projection for FoxMeyer's 1989 year does not include the $216 million that FoxMeyer will pick up after the Louis Zahn acquisition is completed.

Source: *Drug Store News*/NWDA Annual Wholesaler Survey

Wholesalers: Is there life after price-cutting?

The days of volume for volume's sake may be drawing to a close, as players eye new product mixes and picking methods to shore up profits

By Elizabeth Parks

Depending on who you talk to, the drug wholesale industry is either entering a new stage of sophistication and restraint concerning strategies that impact profits, or it is not.

About half the drug wholesalers *Drug Store News* interviewed for this special report thought that at least the major drug companies in 1987 and 1988 were starting to show some restraint in some markets regarding cutthroat price competition.

However, just as many sources thought the opposite was true. They believed that while everyone in the industry is giving "lip service" to the need to adopt strategies that will enhance gross margins, the reality is that companies are still going after volume for the sake of volume, or market share at any cost, and that this is why the industry's average gross margin was down another half of a percentage point in 87.

Theoretically, wholesalers were in complete agreement over the need to attack the gross margin erosion issue. Most felt it was simply dangerous for the industry to ignore the margin issue and hope it could continue to store up profits by improving productivity and efficiency.

Many sources said it was not enough to talk about successfully stabilizing margins, that the industry's real challenge was to get gross margins to go up. Several even said they felt the industry deserved to operate with margins in the double-digit range, "for all the services we provide to our customers."

Wholesalers also felt it was especially important to develop more of the value-added services to attract customers without resorting to offering "the lowest prices in town."

Most of the major companies said they were trying to improve margins by expanding marketing services for independents, chains and hospitals.

More wholesalers were also expanding their product mix to try to enhance margins, adding more H&BAs, OTCs and sundry lines to their mix so they could either enhance their standing as, or evolve into, full-line wholesalers.

A few were experimenting with rack jobber programs, both as a way to grow margins and as a way to achieve incremental volume by improved servicing of new and existing customers. Others were trying to improve their buying and also enhance services by adopting or expanding catalog programs for H&BAs and OTCs bought on deal.

In the product mix arena, home health care was still perceived as a growth area, and so were generic drugs and medical/surgical supplies.

Drug chains, food chains, mass merchandise chains, nursing homes and physicians were seen as growth areas with plenty of potential for

Continued on page 18

The average drug wholesaler, profiled:

- Current number of distribution centers in operation: 8.42.
- Estimated number of distribution centers that will be open by the end of this current fiscal year: 9.23.
- Average sales from drug wholesaling for the fiscal year just ended: **$661.4 million.**
- Estimated sales from drug wholesaling for the current fiscal year: **$799.3 million.**
- Average sales per distribution center: **$80 million.**
- Average net earnings for the last completed fiscal year: **$6.7 million.**
- Anticipated percentage increase for net earnings this fiscal year: **6.6 percent.**
- Number of retail stores currently serviced: **2,375.**
- Percent of retail accounts that are voluntaries or co-ops: **24.0 percent.**
- Average percentage number of wholesalers with voluntaries, co-ops or franchised operations: **83.0 percent.**
- Average number of SKUs stocked at the end of the last fiscal year: **22,730.**
- Average total inventory investment at the end of the last fiscal year: **$51,804,101.**
- Average annual return on investment at the end of the last fiscal year: **15.0 percent.**
- Average gross margin at the end of the last fiscal year: **8.0 percent.**

Source: *Drug Store News*/NWDA 1988 Drug Wholesaler Survey

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